

GROWING TOGETHER



A VISION FOR CANADA'S AGRI-FOOD INDUSTRY



Agriculture
Canada

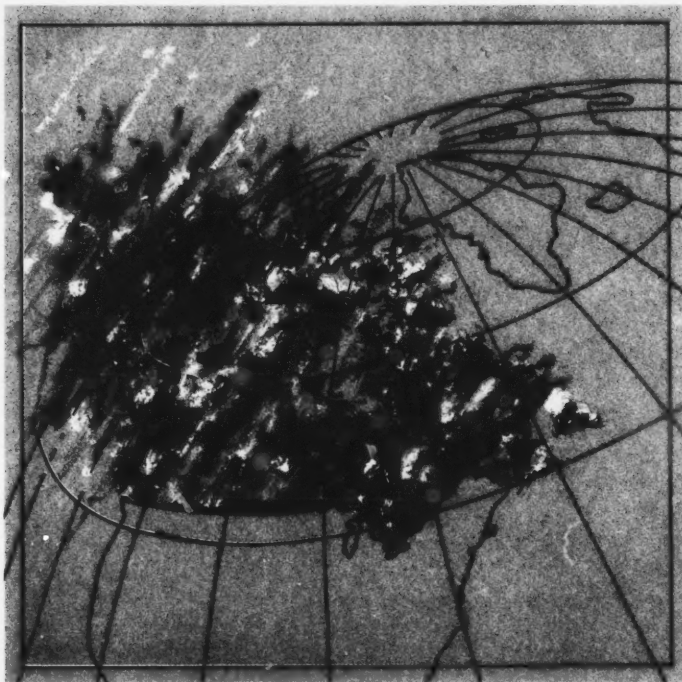
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Partenaires dans la croissance
UNE VISION DE L'INDUSTRIE AGRO-ALIMENTAIRE CANADIENNE

GROWING TOGETHER



A VISION FOR CANADA'S AGRI-FOOD INDUSTRY



Agriculture
Canada

Ministers' Message

November, 1989

Canadian agriculture and the entire agri-food industry are approaching the threshold of the 21st century.

We have much to be proud of when we look at how far the industry has come in recent decades, despite some major difficulties. Looking ahead to the 1990s, we can see more challenges. The pace of change is accelerating, and change is likely to occur on even wider and more complex fronts. If we do not respond effectively, the Canadian agri-food industry will be left behind in a rapidly changing world.

Now is the time to take stock of where we are and to set a vision for the 1990s and beyond. Both the federal and provincial governments called for a thorough review of our agri-food policies and programs in Prince Albert, earlier this year. Together, all Agriculture Ministers indicated that they wanted to build on the National Agriculture Strategy which was signed by all Agriculture Ministers in 1986. We believe that this review will reveal that some current policy instruments remain the right ones for the future, but that others require improvements.

Both levels of government understand that they alone cannot solve the problems and lay the foundation for a solid tomorrow. To make a plan for the next century, a working partnership is needed, a partnership covering all the players: farmers, food processors and distributors, input suppliers and consumers, as well as governments. Together, we can help the industry to grow even stronger.

We believe that we must act now to develop this partnership and to address the problems in our own system. If we wait, those problems will prevent us from meeting the challenges and realizing the opportunities for growth in the 1990s and beyond.

*Our action plan must be guided by some clear principles that give us a sense of direction. Our vision of the future is a **more market-oriented agri-food industry** that aggressively pursues opportunities to grow and prosper. The industry must be provided with a framework of consistent and predictable government programs that encourage a **more self-reliant sector** that is able to earn a reasonable return from the market place. This requires **national policies** which reduce regulatory barriers and which treat all farmers equitably while at the same time **recognizing and responding to regional diversity**. This vision must also be **environmentally sustainable** for our generation and future generations. We must preserve our soil and water resources so that our agricultural producers can continue to provide a safe and wholesome supply of food to all Canadians.*

This paper is intended to launch us on the necessary process of debate and discussion. We welcome the comments and views of each and every one of you, and invite you to participate in the dialogue, for instance, at the national policy conference in Ottawa this December.

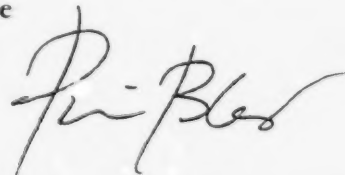
Changes to the way we do business should be evolutionary, not revolutionary. We have a sound agri-food industry that is doing a good job. Let us grow together. Let us build on our successes and develop the policy framework that will make our industry stronger.



The Honourable Don Mazankowski, P.C., M.P.
Minister of Agriculture



The Honourable Charles Mayer, P.C., M.P.
Minister of State (Grains and Oilseeds)



The Honourable Pierre Blais, P.C., M.P.
Minister of State (Agriculture)

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Introduction

chapter one



Introduction

The strength of today's Canadian agri-food industry is a result of successful adaptation to decades of rapid and often difficult change. The resilience of the modern family farm business and the innovation of the Canadian food processing industry have positioned Canada well for the future. Adoption of new technology has led to enormous gains in productivity at the farm level and in the processing sector. Canadians in all regions of the country have shown a great capacity to respond to a quickly changing market-place. The ability of farmers, input suppliers, processors, distributors, retailers, exporters and all others involved in the agri-food sector to respond to change has made our success possible.

Changes will continue to take place in the future, likely at an increasing rate. Advances in technology will likely occur more rapidly than in the past. Consumer preferences both at home and abroad will change. Consumers will demand even greater standards of food safety and quality than they have in the past. The world's climate could change. Public awareness of the need to conserve our resources for future generations is also greater than ever before.

The political, economic and social change being experienced throughout the world will affect our agri-food industry in the future. World food demand will likely continue to grow. But markets will become more competitive than ever, as more countries become better able to feed themselves. A more liberalized trading environment should lead to more open markets in which Canada can compete.

These changes will bring with them many opportunities for greater prosperity in the agri-food sector. If we are flexible and in a position to take advantage of these opportunities, the agri-food industry can be more viable and durable than ever. The industry will create more jobs, and contribute to a stronger rural community. The family farm will become a healthier business as well as a better way of life.

Yet, the current structure of many of our programs and institutions, and the way in which different parts of the sector relate to one another are, in some cases, constraining our ability to adapt to change in the future, and to take advantage of emerging opportunities.

We must forge a new partnership to develop a strategy which can ensure that the Canadian agri-food sector is well positioned to benefit from the opportunities and challenges ahead. It is time now to push ahead aggressively and with confidence to build on our successes of the past, and to choose some new directions for the future.

The Strength of the Canadian Agri-Food Industry

chapter two



The Strength of the Canadian Agri-Food Industry

The Canadian agri-food industry is in a good position to take advantage of significant opportunities which lie ahead. The family farm has demonstrated strength and flexibility through many difficult years. Canadians have, for the most part, been able to respond to changing market situations both at home and abroad with quality agri-food products. All regions of Canada have shown that they can contribute to an expansion in the agri-food industry, and that their regional economies and social fabrics can be better off as a result of growth.

It is on this strong foundation that an even more viable Canadian agri-food industry can be developed, an industry which is better able to respond to the rapidly changing environment within which it must operate.

The Farm Community

The last 20 years have challenged the Canadian farming community. The expansion of the 1970s, followed by the high debt, drought and trade wars of the 1980s, have shown clearly the vulnerability of the sector to changing markets, economic factors and weather.

Yet the experience of recent years also points clearly to the fact that Canadian farmers can be at least as efficient as their competitors. For the most part, the industry is strong enough to adapt to meet the challenges of the future.

The Family Farm Business

A major source of the strength of our agri-food sector has been the flexibility and resilience of the family farm. The family farm is very different today than it was in any earlier period. Over time, technology, social change and evolving markets have brought about significant changes not only in production techniques, but also in the size and prosperity of the average Canadian farm. The working and leisure environment has changed as well, with improvements in transportation, communication and marketing systems.

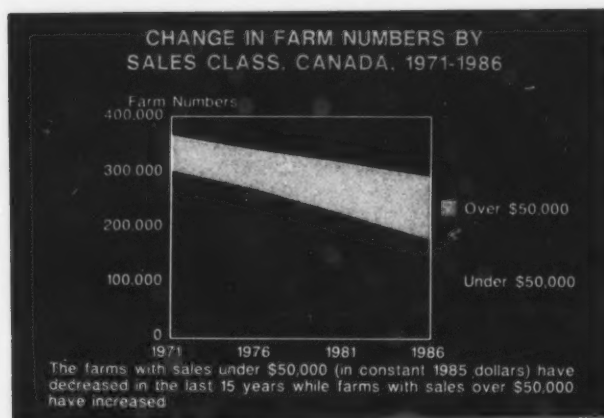
An individual working in Canadian agriculture now produces significantly more output than in the early 1960s. Those farm men and women who have adopted new technologies successfully have reaped substantial economic benefits. Their costs have been well below the levels achieved by those who were not able to meet the management challenges of the new technologies.

Genetic improvements of plants and animals have contributed to major increases in productivity and resistance to pests and diseases. So, too have the innovations and advancements made by the input supply industry — manufacturers of machinery, chemicals and other farm inputs. Overall agricultural productivity almost doubled between 1961 and 1984. Chicken producers now get a pound of meat from two pounds of feed, a 20 percent improvement in the past 25 years. Egg production has increased from less than 200 eggs per hen in the early 1960s to 250 eggs per hen in the late 1980s. The average dairy cow today gives almost twice as much milk as 25 years ago. Canadian grain yields have increased from 1.5 tonnes per hectare in 1960-61 to 2.2 tonnes per hectare in 1989-90. At the same time, both the quality

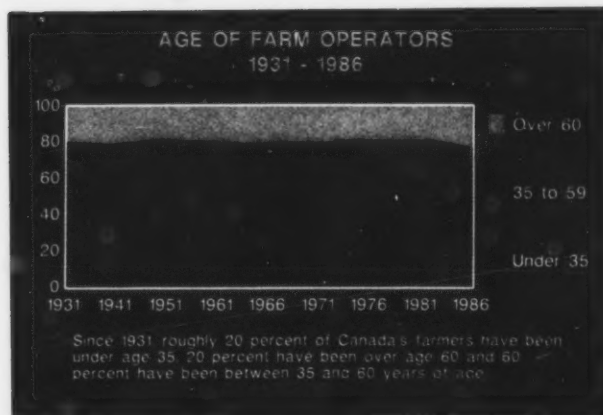


and productive capability in the hog and beef sectors have increased over time. Reduced fat content in pork has been a major factor in the increase in Canadian exports to the U.S.

These productivity and efficiency gains have not been without major structural change in the sector. They have resulted in significantly fewer, but much larger farms. Yet the decline in farm numbers has slowed considerably compared to that of the 1950s and 1960s.



The decline in farm numbers has been offset, to some extent, by an increase in the number of paid workers in agriculture. Total employment in agriculture has remained relatively stable, at around 450,000 to 475,000 since the 1970s.



Today, farm businesses range from small part-time operations which generate a relatively low proportion of family income, to large commercial farms which will often be the main income source for two or more related families. The trends suggest that future strength can come both from the larger farms as well as the smaller, or part-time specialized units.

The number of farmers with sales over \$50,000 has almost doubled between 1971 and 1986. Such farms make up 39 percent of all Canadian farms, but they account for 86 percent of sales. These remain family farms; less than 1 percent are non-family farms.

On the other hand, small farms produce a small percentage of total agricultural production but, in many cases, their specialization has meant that they can be an integral part of the agri-food system. For example, 42 percent of Canada's beef cow herd is found on farms with annual sales of less than \$50,000. These smaller farms are an important source of feeder cattle for commercial feedlots.

Beginning Farmers

An important indicator of the health of any industry is its ability to attract new blood. The financial difficulties of the 1980s, and the fact that the proportion of total farmers under 35 has declined slightly in the early 1980s, has raised concern that the future generation of farmers could be lost. It was to be expected that young people would be less attracted to farming in the 1980s than in the much more favourable 1970s. But in fact, the age distribution of farmers has been fairly constant since 1931. The proportion of farmers who were under 35 was actually higher in 1986 than in any census year between 1961 and 1976.

Between 1981 and 1986, just over 28,000 individuals under the age of 35 started new farm businesses. While it is impossible to predict the future, the continuing participation of young farmers and the fact that young farmers are fully represented among those operating

The Strength of the Canadian Agri-Food Industry

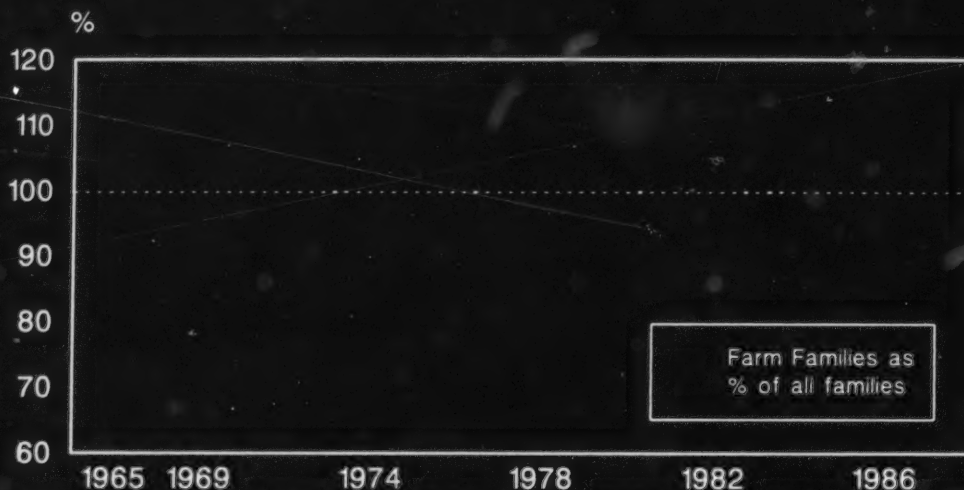
larger, more commercial operations bodes well. However, given the aging trend in the overall Canadian population, it may be unrealistic to expect that the farm population will not follow the general trend.

Farm Income and Returns to Farm Assets

Meaningful comparisons of the income of farmers with other individuals or families are not easy. For farmers, incomes range from very low levels for those with small farms and no other income source, to very high levels for those with large commercial farms and substantial off-farm income. Similarly, incomes in urban areas vary widely. Farmers typically have a much larger capital investment than other Canadian families, which suggests that they should obtain higher incomes. At the same time, however, farmers have benefited from appreciating asset values over time. There are also differences in living costs. Urban housing costs, for example, are generally higher.

In the late 1960s and early 1970s, farm family income (where farming was the principle occupation for a family member) was 70-75 percent of the average Canadian family income. At about \$37,000, the average income for farm families is now slightly above that of the average Canadian family. Government payments have played a major role in supporting farm incomes during the difficulties of recent years. The increase in off-farm income opportunities has also been an important factor, helping many families to enhance and stabilize their total income level. At the same time, however, farm income, especially for the family farms with over \$50,000 in sales, has been quite substantial. The average income before depreciation for these family farms was, in 1987, about \$52,000, of which \$42,000 came from farming and about \$10,000 came from off-farm income.

**FAMILY INCOME CANADA,
1965 - 1987**



Total income of farm families, where farming was the major source for at least one family member, has been roughly equal to that of all Canadian families since the early 1970's.

An important question as we move into the 1990s is whether the income earned by farm families will be adequate to encourage them to stay in farming, rather than to move to some other occupation.

In judging whether farmers will be encouraged to enter farming and to remain in agriculture, the long-run return to farm assets may be a better indicator than the level of family income. The different procedures that have been used to allocate total returns between family labour and capital result in wide variations in the estimated current returns to farm capital. However, most estimates for the 1970s and 1980s suggest a current return to capital of about 3 to 5 percent. That is, after providing for a return for operator and family labour, the net income from farming operations was equivalent to a return of about 3 to 5 percent on the current market value of farm assets. In comparison, the dividends paid on the Toronto Stock Exchange's Index of 300 stocks (TSE 300) yielded an average of 3.78 percent in the 1970 to 1988 period.

DISTRIBUTION OF FARMS BY
INCOME LEVEL AND EQUITY LEVEL

Family Income	Equity		
	Under 50%	50-75% (Percent)	Over 75%
Under \$10,000	5	6	15
\$10,000 - \$20,000	3	3	13
Over \$20,000	5	10	40

Family income is equal to any off-farm income plus farm income after interest and principal payments but before any allowance for depreciation. It is the income available to meet family living expenses and for machinery and equipment replacement. Equity is the total value of farm assets less the debt outstanding.

In addition to the current returns earned by farm businesses, farmers have generally also seen the value of their farm assets increase over time, although this has not, of course, been true in recent years. In the 1970s, the increase in the value of farm capital, principally farmland, was very rapid with gains of more than 20 percent being registered in a number of years. It is estimated that between 1971 and 1987, the value of farm

capital increased by an average of 9.3 percent annually. Again, by way of comparison, the increase in the value of the TSE 300 stocks averaged 7.5 percent annually in this same period. While farmland has fallen in value since 1981, the average value per acre in 1987 was 35 percent above the 1971 level after adjusting for inflation.

While the total returns to the capital invested in agriculture appear to have been comparable to those in other sectors, the relatively low current return limits the debt-servicing capacity of farm businesses, especially in the early years after establishment. To overcome the risk of inadequate cash flow in difficult years, most farmers have maintained equity or off-farm income sufficient to help cover the farm debt.

Farm Debt in the 1980s

There has been a great deal of concern in the agriculture sector about the impact of the high debt levels of the early 1980s on the financial viability of farm businesses. It is, however, the ability to service the debt, rather than the absolute level of the debt, that determines whether a business can survive.

From a survey conducted by the Farm Credit Corporation for 1987 it was possible to classify farms by level of debt and family income after all interest and principal payments were made.

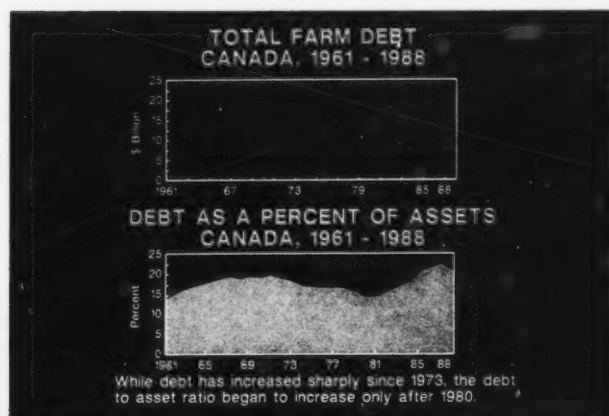
As shown in the chart above, 5 percent of all farms had family incomes of under \$10,000 and less than 50 percent equity in their farm businesses in 1987. The average varied by province, from 9 percent in Saskatchewan to 3 percent in Ontario. These farms were at extreme risk of financial failure. Those with equity of 50 to 75 percent, and with family incomes under \$20,000, were also at some financial risk but their situation was not as critical as those in the category just described. Fifty-five percent had incomes over \$20,000 after all debt payments, and could be considered to be in a secure financial position.

Twenty-eight percent of all farms had relatively low family incomes (under \$20,000)

The Strength of the Canadian Agri-Food Industry

despite having little debt (equity over 75 percent). This group tended to have relatively small farm businesses (sales and government payments on average were under \$45,000), little off-farm income (an average of about \$6,000), and very high equity levels (an average of about \$300,000 or over 90 percent of the total value of farm assets).

In spite of the debt problems of the 1980s and the record \$22 billion in debt Canadian farmers held in 1985, total debt is estimated to be between 20 and 21 percent of total assets in 1988. This is not much above the level of 17 to 19 percent in the period of 1965-1972.



In recent months, we have seen some improvements in the farm debt situation. Loans in arrears have declined by 30 percent in the past year and the overall industry debt/asset ratio decreased slightly in 1988.

The Rural Population

The decline of our farm population has slowed. Yet the overall trends of the last 40 years continue to raise questions about the ability of our rural communities to survive and provide the necessary infrastructure for agriculture.

While many rural towns and villages have declined or even disappeared over time, the total non-farm rural population (which

excludes farmers and those living in centres of over 1,000) has in fact stabilized at 20 percent of the total Canadian population for the last ten years. This is up slightly from the level of about 17 percent in the 1966-71 period. Even on the prairies, where concern about the depopulation of rural areas has been greatest, this proportion has been fairly constant at 16 to 18 percent since 1966.

There also appears to be a vitality and strength in social services and infrastructure in rural areas that we did not have 25 years ago. We must be prepared to ensure that our rural areas continue to be desirable places to live and work, and that these communities can continue to meet the needs of farmers.

The Future

Every decade has brought challenges to Canadian farmers. The 1980s were particularly hard, and it is impossible to predict what the future holds. Yet it appears that we are emerging from the difficulties of the 1980s and that we can look forward to a stronger farm industry in the 1990s.

The underlying strength of the farm sector, and its resilience and adaptability, will be a major asset in its ability to continue to evolve in future years.

Responding in the Market-Place

Our future depends not only on our ability to compete in the domestic market, but on our ability to maintain and expand the scope of our export markets.

The domestic market continues to provide significant opportunities for Canadian agri-food products, although the opportunities lie more in responding to changing consumer preferences than in overall growth. For many commodities, including dairy and poultry, the domestic market is supplied primarily by domestic production. For other commodities, food imports, at about \$7 billion annually, are an important source of commodities for Canadian

consumers but can also provide opportunities for Canadian commodities to replace imports.

Export marketing will continue to be the life-blood of many segments of the Canadian agri-food industry. Canada's record in farm exports makes ours one of the most export-oriented agri-food industries in the world. The value of Canadian agri-food exports is equivalent to 48 percent of farm cash receipts, more than double the proportion in the United States. Our total agri-food exports in 1988 were valued at \$10.2 billion, producing a \$3.5 billion trade surplus.

Grains and Oilseeds

The grains and oilseeds sector is the backbone of our positive balance of trade in agricultural products. Since the mid-1960s, the value of our grains and oilseeds exports has increased four to five times, beyond all projections at that time. Recent reports have indicated that there may be potential for further increases in the years ahead.

Livestock and Livestock Products

The pork and beef industries have also become important exporters of high quality products, contributing substantially to our export strength. In 1988, red meat exports were valued at over \$1 billion, compared to \$620 million in 1981. Canada has also gained the reputation as an important supplier of high quality breeding stock, embryos and semen, and is a world leader in artificial insemination technology. Exports of genetic material doubled over the last three years to over \$200 million.

Horticulture and Specialty Crops

Many small but regionally very important products have begun to share in our export expansion. For example, pulse production has been increasing dramatically since 1980, and has proven important in the diversification of the western agricultural base. In response to a ready market, the value of

DEPENDENCE OF FOOD INDUSTRY ON DOMESTIC MARKETS, 1987

Domestic Markets
(91.0%)

Export Markets
(9.0%)

Food
(Excluding fish)

Domestic Markets
(64.0%)

Export Markets
(36.0%)

All
Manufacturing

The Strength of the Canadian Agri-Food Industry

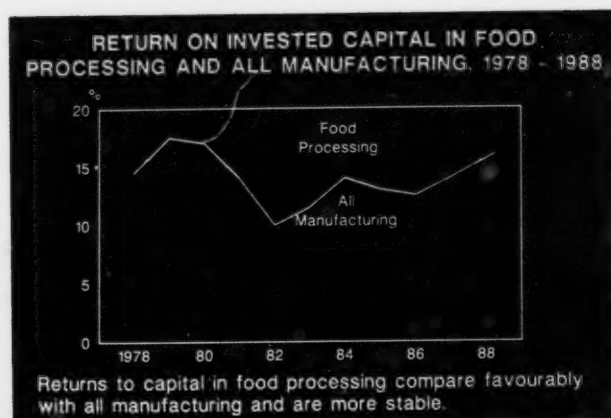
lentil exports has increased by over 400 percent in the last four years. Exports of dehydrated alfalfa from western Canada have also doubled in the last six years.

Although Canada is a net importer of horticultural commodities, exports play an important role. For example, blueberry exports from Atlantic Canada and the Lac St-Jean area have almost doubled during the 1980s. In 1987, raspberry producers in British Columbia exported four times the 1981 value of exports. Potato exports have almost doubled in the past six years.

Maple products, mostly from Quebec, are in increasing demand outside Canada. In 1981, we exported \$18 million of maple products. In 1988, \$42 million was earned through the export market.

The Food Industry

Currently, food processing is Canada's second most important manufacturing industry. Though concentrated in central Canada, it contributes to the economy of all regions of the country. It employs large numbers of people and provides the only manufacturing jobs in many communities.



While our food processors rely mainly on the domestic market, international trade has become increasingly important for the processed food and beverage sector. In just over a decade, our exports of processed products increased by 300 percent to \$2.8 billion

in 1987. We export more processed foods to the U.S. than any other country, and we have made important inroads in the Japanese market. Our exports of highly processed food products to Japan quadrupled in 1988 over 1987.

The industry is experiencing significant structural changes. While there has been a decline in the number of food processing establishments over time, there has also been a dramatic increase in their size since the 1950s. Half of the plants are now producing almost 300 percent more output per establishment than three decades ago.

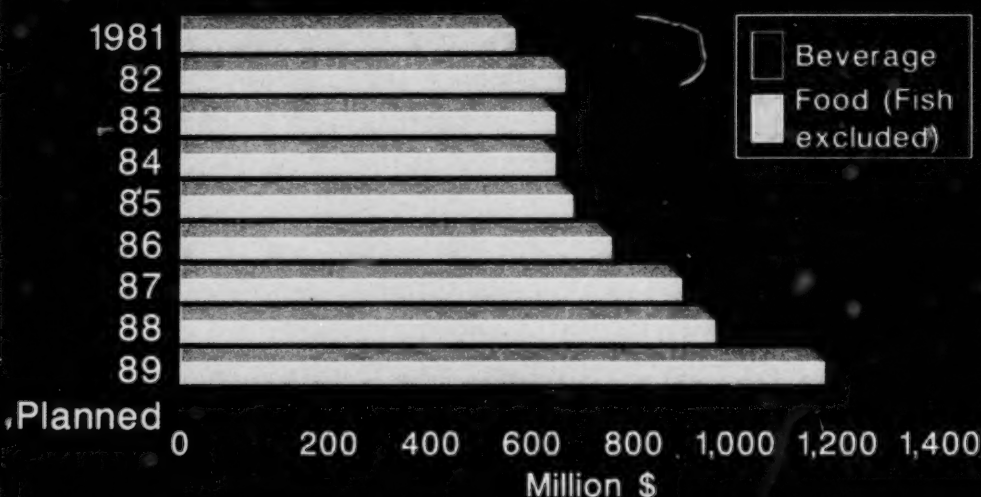
Yet while plant size remains small compared to those in the U.S., Japan and Europe, the sector has been growing. The value of food and beverage industry shipments, including those to hotels, restaurants and institutions, increased by 5 percent in real terms between 1982 and 1986, to \$39 billion. In addition, profitability in the sector has been relatively stable, and compares very favourably with the level achieved in overall manufacturing.

There is good reason to believe that the food processing industry can do even better. Canadian food processors have shown that they can be innovative and use new technology in response to consumer demand.

While there is concern that the Canada-U.S. Trade Agreement (CUSTA) will result in a decline in food processing activity in Canada, new investment in the food and beverage processing industries continues to increase. Increased expenditure intentions for 1989 reflects an optimistic outlook by the sector. Industries with large planned increases in investment include slaughtering and processing, bakeries, flour and breakfast cereals.

Canadian food retailers are currently experiencing strong sales. In 1988, sales increased by 11 percent over the previous year to over \$37 billion. Net profits continue to show strength, and are currently around \$395 million.

INVESTMENT IN FOOD AND BEVERAGE PROCESSING



Investment in food and beverage processing shows continued strength.

The food retailing industry, like the processing industry, is in a period of significant transition. The industry is undergoing a process of rationalization. In particular, retail food stores are becoming more concentrated on a regional basis, and the size of traditional supermarket stores is increasing.

The greater number of two-income families and the growing emphasis on leisure are resulting in increased demand for quality and service. Food retailers are adding more specialized departments, introducing higher value-added products, and offering a greater selection of convenience foods. These trends will continue, and it is important that the agri-food industry in Canada respond.

The Canadian food service industry also represents a significant and growing element of the agri-food system. The trends affecting sales in food retailing are also accounting for significant growth in this sector. In 1963, consumers made only 18 percent of their total food expenditures at food service outlets, while in 1988, they spent 39 percent

of their food dollars at these establishments. The almost 10 million meals sold daily in 1988 generated sales of \$23 billion, and industry estimates for 1989 suggest an increase of 8 percent. In 1988, around 80,000 commercial and institutional establishments employed approximately 630,000 people on a full and part-time basis. Industry projections are for this figure to grow by 16 percent to 750,000 by 1995.

The Future

We have demonstrated in the past that Canadian agricultural and food products can penetrate new markets, and that new products can be developed and exploited both domestically and internationally. Our record is good, and it is upon this record that we can build.

But the market-place is changing rapidly. In addition to ensuring that we are well positioned to respond to opportunities within Canada, our future growth will depend on our ability to respond to changes in international demand for food products.

The Strength of the Canadian Agri-Food Industry

The future belongs to those who correctly assess what the market wants, and deliver it at the right time, quality, place and price. The success of Canadians in an increasingly competitive world trading environment will depend on their knowledge of, and adaptability to the market, their access to the technologies needed to respond to the market, and the entrepreneurial ability to put them together.

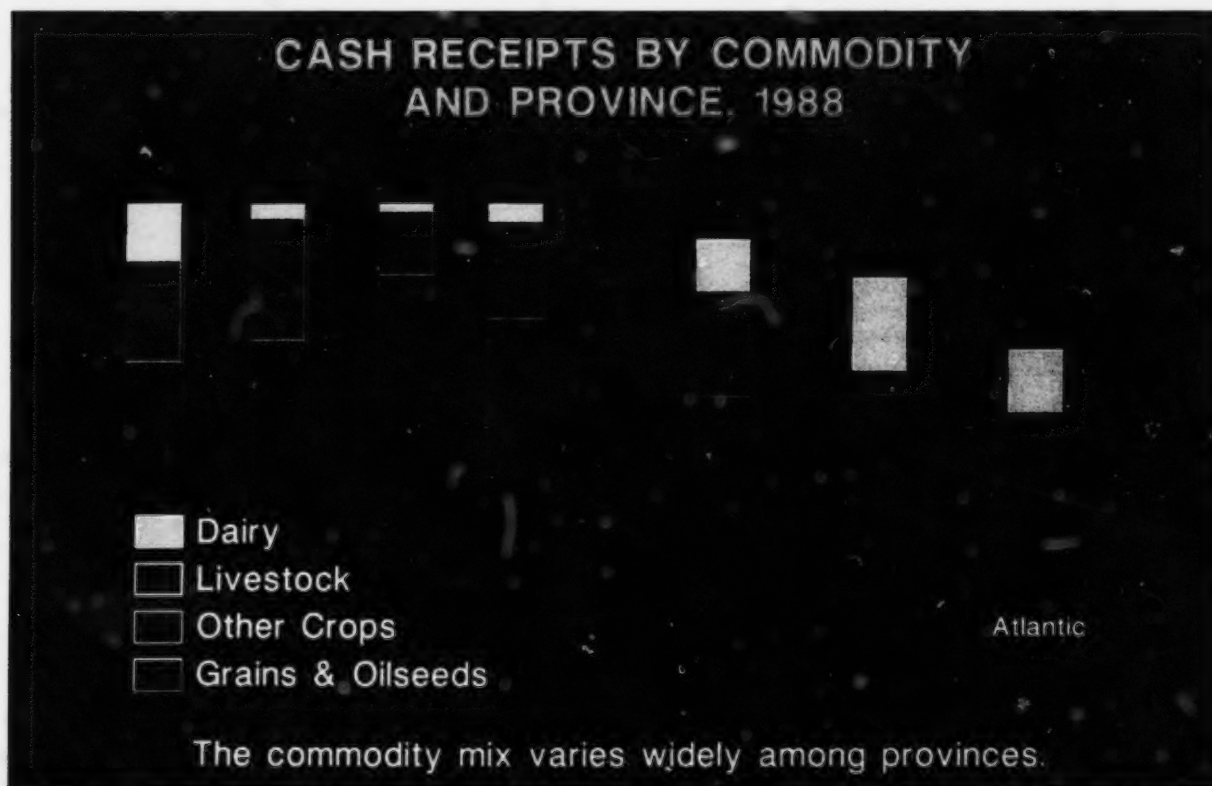
Our Regional Strengths

The strength of the Canadian agri-food industry lies in its diversity as well as its ability to adapt to changing circumstances. The wide variety of agricultural commodities produced in Canada is, in itself, indicative of the extent to which resource endowments, infrastructure and market conditions differ from one region of the country to another. It is these differences which have enabled the agri-food industry as a whole to prosper and grow, even in the face of periodic difficulty.

From British Columbia to Newfoundland, the agri-food industry provides stability to the social and economic fabric of our rural communities. In turn, it is the ingenuity, skill and commitment of the individuals who live in these communities and who work in the industry, which ensure that food production continues to contribute to Canada's overall economic development.

The Atlantic Region

The Atlantic Canadian agri-food industry is a vital element of the local economic and social fabric. For example, in Prince Edward Island, farm production represents about 11 percent of the provincial economy, the second highest of any province in Canada. In the same year, New Brunswick farming generates roughly \$250 million in cash receipts, and contributed \$125 million in value-added to the provincial Gross Domestic Product. Overall, cash receipts in the Atlantic region were \$820 million in 1988.



Atlantic agriculture provides fresh, local products both seasonally and year-round. It also creates employment through further processing activities. For example, while Newfoundland has a relatively small farming sector, the agri-food industry provides 2100 jobs in areas of high unemployment. In fact, the rate of job creation in Newfoundland agriculture rose 11 percent between 1981-86, double the growth rate for Canada as a whole.

Livestock, dairy and poultry are important contributors to the economies of the Atlantic provinces. In Nova Scotia, while there has been significant expansion in local production of fruits and vegetables, about 50 percent of farm income is derived from the dairy and poultry sectors. The livestock sector relies to a large extent, but varying between provinces, on feed grains from outside the region. This is a factor which has restricted the cost-competitiveness of the industry. At the same time, there is potential for expanded feed grains production in some areas.

There have been substantial successes in Atlantic potato production and processing, niche marketing for products such as blueberries, and exports of world class products such as seed potatoes, apples and breeding animals.

Past successes in the production and marketing of horticultural commodities in all Atlantic provinces suggest an excellent opportunity for further market expansion and development, particularly to the United States. Value-added processing also shows significant potential not only in the horticultural sector, but also in certain other sectors such as dairy, red meats and poultry.

Central Canada

The agri-food industry in Central Canada benefits from many advantages, including superior soil and climatic conditions, close proximity to large urban markets, a highly developed processing sector and an efficient and well-organized marketing system for agricultural commodities and food products. In addition, an extensive network of private and

public sector research facilities, educational institutions and support services will assist the industry to continue to prosper.

Combined sales of primary agricultural commodities in the provinces of Quebec and Ontario exceeded \$9 billion in 1988, or 41 percent of the Canadian total. Of this amount, fully 35 percent was derived from sales of supply managed commodities; namely dairy products, poultry and eggs. The dairy industry is particularly important in Quebec. The stability which this sub-sector has provided to the agricultural economy of Central Canada has been significant, not only at the producer level, but also with respect to the development of value-added production.

The food and beverage industry in Ontario and Quebec is the largest in Canada. The respective contributions of the primary production sector and the food and beverage industry to Gross Domestic Product are roughly equal for Canada as a whole. Yet downstream value-added activity in Central Canada is roughly 1.5 times greater in economic terms than primary production activity.

The strengths of the Central Canadian agri-food industry are not limited, however, to its supply managed and processing sectors. In fact, virtually every agricultural commodity that can be grown in Canada is produced in the Great Lakes — St. Lawrence River watershed. Taken together, Ontario and Quebec possess an extremely diversified production base which provides its 100,000 or so farmers with a broad range of production alternatives, ranging from beef, hog and grain production to horticultural crops and tree fruits. Within this context, the potential for continued growth and development is excellent, both within the domestic market-place, and in the large urban markets in the U.S.

The Prairies

The agri-food industry is a major component in the economies and social fabric of the three Prairie provinces. It is by far the

The Strength of the Canadian Agri-Food Industry

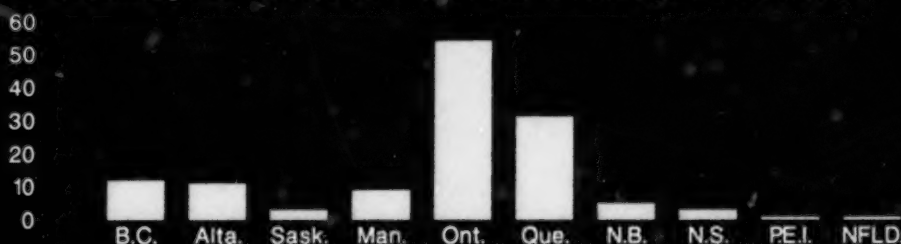
most important industry in Saskatchewan, normally accounting for about 16 percent of Gross Domestic Product. This places the contribution of Saskatchewan agriculture to the provincial economy at the highest of any province in Canada.

In Manitoba, the horticultural industry has also achieved considerable success with potatoes, carrots and cole crops over recent years. Manitoba's potato processing industry is a major supplier in domestic and international markets.

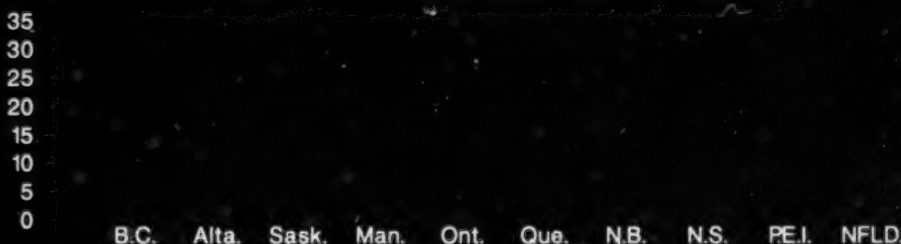
FOOD AND BEVERAGE PROCESSING BY PROVINCE, 1986

(VALUE ADDED - EXCLUDING FISH)

Percentage of Canadian Food and Beverage Processing



Percentage of Total Provincial Manufacturing



Food and beverage processing is highly concentrated in Ontario and Quebec. Food and beverage's share of all manufacturing is relatively high in the Atlantic and Western provinces.

There are approximately 65 million acres of cropland in production (not including summerfallow) in the Prairie provinces, of which half are situated in Saskatchewan, one third in Alberta, and the remainder in Manitoba. In 1988, farm cash receipts were \$11 billion, half of Canada's total.

The cattle sector dominates the Prairie livestock industry, accounting for almost 60 percent of farm sales. Hog production is second in importance at 15 percent. Similarly, wheat, canola and barley account for approximately 80 percent of the market cash receipts generated by crop production. In both instances, the export market accounts for a large proportion of sales.

Production is spread over about 150,000 farm units and supports a farm population of approximately 480,000. While a large percentage of export commodities leave the region in their raw state, there is a growing awareness of the need to increase local processing of basic commodities. In fact, Alberta and, to a lesser extent, Manitoba have succeeded in developing a broad base of food processing and manufacturing industries. Although Saskatchewan trails in this respect, it is rapidly changing its orientation.

The diversification of the Prairie agri-food industry is now being encouraged by all levels of government. Opportunities are being identified, and market development initiatives

pursued. Improved access to the U.S. and other international markets will ensure that the existing potential for growth and development is realized.

The many strengths underlying agriculture in Alberta, Saskatchewan, and Manitoba provide a good foundation on which to build. Diversification of the agricultural and economic base will continue to be of critical importance to the region. Its future is highly dependent on its ability to diversify both the primary and secondary sectors of the industry, in response to emerging market opportunities.

British Columbia

The agri-food industry is a small but stable component of the British Columbia economy, representing nearly 1.5 percent of provincial Gross Domestic Product. Total farm cash receipts in 1988 amounted to slightly over \$1 billion. Livestock products, including milk, cattle and calves, poultry, hogs and eggs, make up nearly two-thirds of farm sales. The remaining third is dominated by fruits, vegetables, and floriculture and nursery products.

Over half the province's farm cash receipts are generated in the south coastal region, made up of the Fraser Valley and Vancouver Island. A wide range of commodities are produced here, including most of the output of eggs, milk and poultry products, some feedlot beef, and a substantial amount of the province's hog production. Tree fruit production is concentrated in the Okanagan region and the Fraser Valley. Berry, vegetable

and nursery production is found mostly in the south coastal region, grains and oilseeds in the Peace River region, and cattle production is dispersed through the central interior of the province.

While there has been a sharp reduction in the grape and wine industry in B.C., there has been very strong growth in the small fruit industry, such as raspberries and blueberries, in recent years.

Value-added processing in the food industry is a significant and rapidly growing portion of the economy. Value-added by British Columbia food processors (excluding fish) accounted for seven percent of the Canadian total in 1987.

Overall, the industry is well placed to examine and exploit a wide range of new opportunities. Throughout British Columbia, increased value-added activities can continue to enhance employment and output. The strength that the industry has shown provides a good foundation for further strengthening B.C. agriculture.

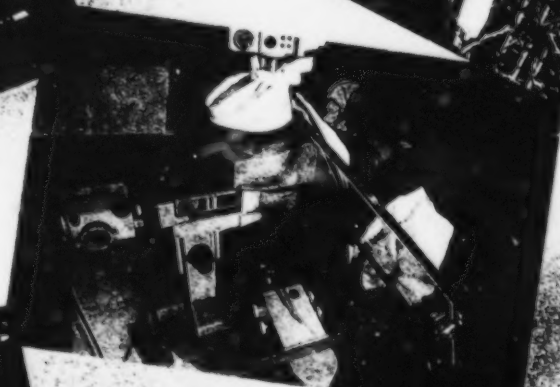
The Future

In every region, there is good reason to believe that the agri-food industry can continue to grow and prosper, provided there is a willingness to remove some of the barriers to future growth. We must build on the inherent regional strengths which have been an important part of our evolution, if the industry is to continue to contribute to the development of each region.



Why a Policy Review?

chapter three



Why a Policy Review?

The Canadian agri-food industry has much of which to be proud. It is a strong industry that has shown flexibility in the face of constant change. It is a major engine of economic activity and employment, contributing positively to Canada's Gross National Product and our trade balance. The industry provides jobs and stability in rural areas. While it differs by region, all regions of the country have shared in the growth made possible by developing and exploiting new markets.

Yet there are many pressures facing us today, both domestic and international, which point to the need for a comprehensive review of our agri-food policies and practices.

In the last few years, we have seen that some approaches to problems of the past are no longer appropriate to address the challenges of the future. In some cases, they are preventing us from fully exploiting opportunities. In other cases, lack of predictability is interfering with industry management decisions.

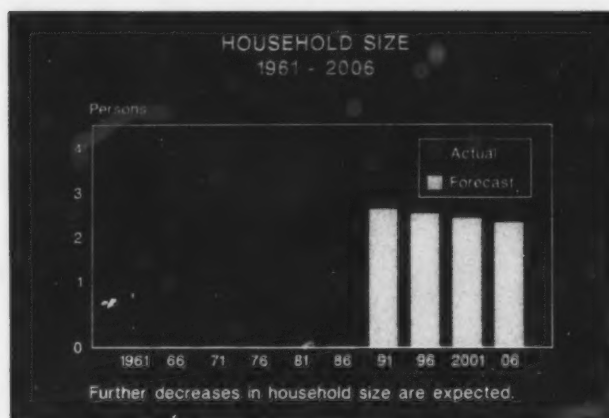
In still other cases, governments, farmers, processors and all other partners in the Canadian agri-food industry need to find better, more cooperative ways to work together for their mutual benefit. There is a need to reassess some of the traditional relationships between parts of the industry which may be contributing to a lack of understanding of shared goals, and preventing us from maximizing our potential.

The 1986 federal-provincial National Agriculture Strategy identified some of the reasons for change and yielded a great deal of common agreement on policy direction. Some progress has been made since then. Yet events during the past few years have kept us from making progress in many areas. At the same time, recent events have shown even more clearly the need for all partners in Canadian agriculture to take stock of, and adapt to, the environment in which the Canadian agri-food industry will be operating in the future.

The Changing Market-Place

The Domestic Market

The Canadian market for agri-food products is changing more rapidly than ever. While overall domestic demand for food is unlikely to grow substantially, several factors will influence a shift in consumption patterns. The increasing importance of smaller family sizes and dual income households, increasing labour force participation by women, the aging of our population and rising standards of living will clearly affect the future trends for the food industry.



Increasingly, more highly-processed foods are being demanded by consumers. Take-out and restaurant meals will continue to provide a growing market for food products. The movement towards lighter, healthier, more frequent meals and more ethnic foods will continue. Canadians are also demanding even greater assurances of food quality and safety than ever before.

These demographic changes and changes in consumer preferences will require that all parts of the food chain continue to find new ways to be more efficient, flexible and innovative than in the past. We cannot allow existing programs and policies to slow this evolution.

Our competitors are identifying these trends, and are looking for ways to develop markets in these areas. To avoid losing valuable market opportunities, the Canadian

food industry must be in a position to respond to emerging market opportunities and to identify and fill new market niches with products which are competitive with those of other countries.

To be competitive, food processors will need to have plants that are as efficient as possible. They will also have to be assured of reasonable costs of labour and packaging. In addition, they will require a stable supply of reasonably priced inputs. Although it varies widely according to the product, Canadian processors currently spend on average two-thirds of all operating costs on raw materials.

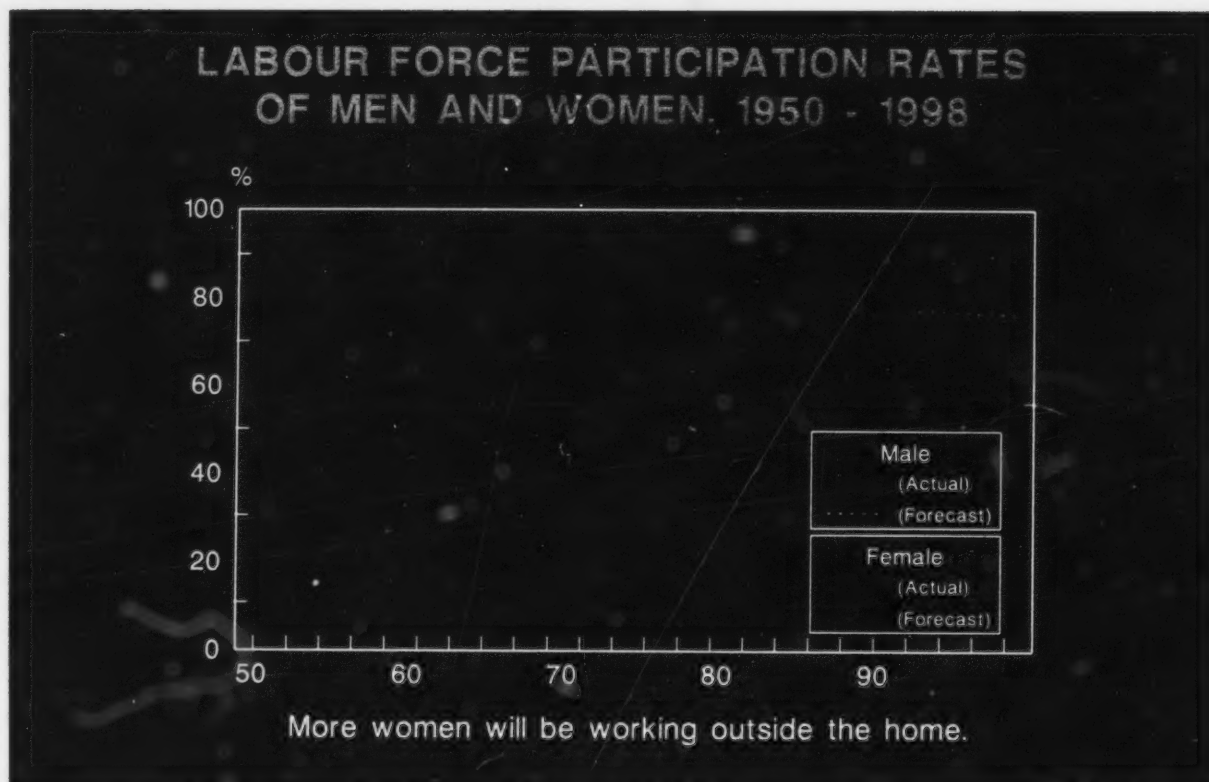
To respond both to the markets for raw products and to the needs of domestic processors, farmers will need to find more effective ways than ever to reduce costs and manage risk. They will need to respond better than in the past to changing consumer demands for new and different products. Adoption of new technology and better production and financial management skills will be critical.

Responding to new market opportunities will not only create markets for Canadian commodities, but will also provide an avenue for job creation in Canadian processing industries, and diversification of regional economies. While many products which are currently imported are not available in Canada for reasons of climate, cost or lack of production facilities, there are some significant items where Canadian raw materials, technology and other advantages could justify expansion of Canadian production and processing.

Currently, Saskatchewan's durum wheat is sought after by Canadian consumers in the form of pasta, processed and packaged in Italy and shipped back to Canada. We used to sell rapeseed oil to the U.K for industrial use during the war. Today, Canadian consumers buy a new generation of that same product, Canadian canola, as bottled salad dressing imported from France.

Lamb provides us with another example of a potential opportunity. In 1988, 65 percent of the Canadian market for lamb was supplied by imports. Canadian farmers produce an

Why a Policy Review?



excellent product, and there is proven and growing demand. Yet there is a need for more market development and promotion aimed at increasing Canadian lamb consumption. We also have to find ways to increase the efficiency of the Canadian lamb industry so that it can capture more of the Canadian market.

The growth in production of Canadian specialty cheeses serves as a good example of a targeted import replacement program working successfully. Canadian specialty cheese production has more than doubled in the last decade. Other food products that Canada imports in large quantities may provide opportunities: pulses, (especially further processed products based on pulses), melons, biscuits and cookies, prepared, precooked frozen dinners, and products specially developed and destined for the growing food service market.

To ensure that Canadian food processors can continue to be a market for Canadian products, and that they can continue to

meet the demands of the Canadian consumer, everyone will need to work more effectively together. We have to take a hard look at our current production and marketing systems, as well as our support programs, to ensure that they are not presenting barriers to maximum growth by masking market signals. We must ensure that we do not face more regulatory obstacles than do our competitors.

Improved development and use of technology as well as marketing strategies will also have to be pursued. The response of everyone in the industry, and the recognition of our shared goals, will be critical if we are not to fall behind.

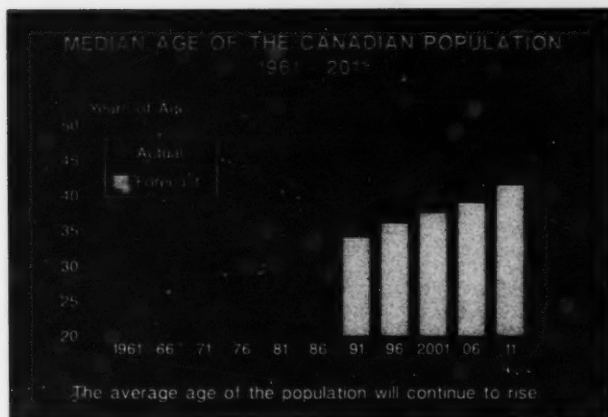
The International Market

The world market for agriculture and food products is likely to change rapidly over the next decades. There is significant potential for growth in opportunities from which Canada can benefit. To strengthen our global

presence, we need to develop a global vision and a global reach. Building on the Canada-U.S. Trade Agreement, looking to growing Pacific markets, and responding to the challenge of Europe '92 will be the key to jobs, economic growth and international competitiveness in the future.

The U.S. market alone offers many possibilities, especially with the conclusion of the CUSTA, particularly given the fact that we have consistently had a significant food trade deficit with the U.S. Europe is a vital and potentially growing market for agri-food products. Europe '92 will result in a concentrated single market of 320 million consumers, one of the largest single markets in the world.

Opportunities also exist in the newly industrializing countries of Asia. By the year 2000, Asia will have 60 percent of the world's population, 50 percent of production and 40 percent of food consumption. Income growth in Asia is twice that of the developed world. This growth, combined with the fact that the share of personal income growth going to food purchases in these countries is three- to four-times higher than in developed countries, and that dietary patterns are shifting, should result in significantly increased food requirements. This could create a growing market for Canadian products.



Yet, while world food demand has been growing rapidly, so has food supply. One reason is technological change which has resulted in dramatic increases in supply in some countries. While Canadians have adapted

technology to allow greater productivity increases, so have others. For example, Europe, once a major market for Canadian grain, has doubled its production in the last 30 years. The European Community (EC) is now the third largest grain exporter in the world.

The food self-sufficiency objective of some countries has resulted in border restrictions and surplus production, such as in the EC and many developing countries. The World Bank has noted that food supply has recently grown more rapidly than demand, resulting in a long-term trend to lower real prices and highly competitive markets. Clearly, Canadians will have to work hard to compete.

While Canadians have had considerable success in the world market, not all products are sharing in this success. Almost 75 percent of our total agri-food exports are still generated from trade in cereals, oilseeds, and meat products in either raw or partly processed forms. The remainder comes from specialty crops, genetic materials, seasonal fruits and vegetables, and a few specialized processed foods and beverages.

Further processed products represent a very small part of Canadian agri-food exports. We need to ensure that our policies and practices are not hindering the growth and competitiveness of the Canadian food processing sector on which so many farmers depend.

We are also heavily dependent on a few countries for our export markets, which could make us vulnerable if their requirements change.

The importance of our export markets to the strength of our industry, and a continuation of strong global competitiveness means that we will have to ensure that market signals are transmitted to individual entrepreneurs. Programs, policies and traditional industry practices cannot distort these signals which are critical if the industry is to respond aggressively. We also need to work at ensuring that Canadian farmers have the highest possible level of management skills, as well as lower costs, to allow them to be as efficient and competitive as possible.

Why a Policy Review?



The Canada-U.S. Trade Agreement (CUSTA) and the General Agreement on Tariffs and Trade (GATT)

It is not just the competitive nature of the international trading environment which is changing. The rules governing world trade are also changing. There is an increasing acceptance internationally of the need to bring about a more fair and equitable trading environment. We need to assess our programs and policies to be sure that they allow us to manage change in the face of this changing environment.

Given the importance of the American market for Canadian agri-food products, the Canada-U.S. Trade Agreement is an important step in ensuring our ability to access that market of 250 million consumers. The intent of this agreement is also, over several years, to bring more discipline to continental trade through a clearer definition of allowable subsidies in both countries, which in turn should clarify the application of countervail rules and provide consistency in their application. At the same time, the CUSTA will require that Canadians build on their own strengths, and be as efficient as possible in order to compete effectively.

The federal government is also committed to defending the interests of the Canadian industry through the Multilateral Trade Negotiations (MTN). Canada is already one of the freest trading nations in the GATT community, and we will need to ensure that

through the MTN, Canadian farmers can enjoy the benefits of a more level playing field.

A successful outcome of the Multilateral Trade Negotiations should bring about a more open access to world markets, a world-wide reduction of trade-distorting subsidies, and a clearer set of international trading rules for agriculture. These developments will be of significant benefit to a sector which has suffered greatly from international trade wars and protectionism. As with the CUSTA, the success of the current round of GATT negotiations will play a major role in our ability to continue to build on our successes.

Yet the benefit will only be as great as our ability to provide high quality products at competitive prices to markets both at home and abroad. International diplomacy can only supplement the actions of the agri-food industry in aggressively marketing competitive Canadian agri-food products. Equally important will be our ability to diversify and to add value to basic agricultural commodities. One clear challenge will be to ensure that we can develop and apply new technology more rapidly than can our competitors.

The Government of Canada will continue negotiations with our trading partners to ensure that Canada shares in the benefits of a more level international playing field. At the same time, we will also have to take stock of our current policies, and work together towards a national approach which will enable us to take advantage of the opportunities which lie ahead. While the precise outcome of the GATT negotiations and their impact on existing programs is not yet known, a positive outcome will mean that the same disciplines applied to our trading partners would have to be accepted by Canada.

The impact of a more liberalized trading environment will be different from region to region and from commodity to commodity. We need to be ready to respond to the outcome of the negotiations in a manner that is sensitive to the needs and strengths of all regions.

Technology and Change

The evolution of the agri-food industry world-wide has depended to a great degree on the growing availability of technology. This change will continue to accelerate as new technology is developed by governments and the private sector. New technologies are expanding the capacity of our competitors. We too must be in a position to develop and exploit the research which is required to respond to the new demands being placed on the industry.

Biotechnology has already resulted in many significant advances. Canola, the second most valuable crop in Canada, is a prime example of the contribution that long-term research can make to the sector. In 1955, the total value of the rapeseed crop amounted to only \$2.8 million. This modest initiative has expanded to five provinces with canola production now worth close to \$1 billion annually.

Changing technology has also allowed Canadians to exploit additional market opportunities. The Hog Grading Index and beef grading standards have evolved to meet changing consumer preferences for lower fat content in meat. Food processing technologies are being developed to make many foods more acceptable from a health point of view. Many perishable food products are now being packaged in a way that allows quality products to be provided when wanted and where wanted, thus expanding opportunities for market development and penetration.

Internationally, growth in the agri-food industry will continue to be driven by even greater technological advances. Ensuring that the industry has access to the latest technology, and that they know how to apply it, will be critical to their ability to compete both at home and abroad.

Federal government expenditures represent over 60 percent of all Canadian expenditures on agri-food research. This compares favourably with that of other developed countries. In 1989, the Canadian government spent \$10 per capita on agri-food research

compared to \$10 for France, \$7 for the United Kingdom and \$5 for the U.S. However, the level of private sector agri-food research is low compared to that in many other developed countries. The private sector contributes less than 8 percent to our agri-food research effort, keeping Canada's overall research below that of our competitors. Both private and public sector research programs must be strengthened and better coordinated to reduce financial and environmental risk, to develop cost effective methods of production and to enhance product values, improve product quality and develop a diversified product line.

More joint ventures between governments and the private sector will be key. An example of the gains which can be made through cooperative research is that which is taking place at the Lethbridge Research Station. There, government and private sector scientists are conducting research which should lead to the registration and world-wide commercialization of a naturally occurring fungus that improves the efficiency of the use by crops of both rock and processed phosphorous, one of the major fertilizers required for crop growth. Such breakthroughs have significant implications for the profitability of farm operations and environmental sustainability.

Targeting of research efforts on improving marketability of farm products, as well as reducing costs on the farm and making possible more effective uses of labour and machinery, can also increase farming profits, making us more competitive in an increasingly competitive trade environment.

Meeting the challenges of the future will require much closer collaboration and linkage of governments, industry and universities in technology development and implementation. Check-offs could become an important tool to allow farm groups to raise funds for more research.

Perhaps as important, as our competitors become more efficient by adopting new technology, it is critical that we assess whether other Canadian agricultural programs and policies are preventing our industry from competing in the world market.

Why a Policy Review?

The Needs of the Farm Business in the 1990s

The family farm of today shows considerable strength and ability to adapt to change. Yet there are some structural problems which will need to be addressed if Canadian farmers are to continue to maintain an acceptable living in the face of an increasingly competitive trade environment.

Management Skills

It is important that we work together to identify the best means possible to ensure that farmers are equipped to meet the challenges of the 1990s and beyond as successfully as they have met the challenges of the past.

The experience of the Farm Debt Review Boards and that of agricultural lenders demonstrates the need for improvement in production and financial management skills. Some producers excel at producing high yielding crops and livestock but are not strong on the financial side of the business. The result is often low incomes despite high yields.

Improved management skills, and ultimately achieving lower costs, can make a major difference in farm income. In total, on gross revenue of about \$22 billion in 1988, costs were approximately \$15 billion. If costs could be permanently reduced by ten percent through better management and use of technology, total costs would decline by \$1.5 billion annually — an amount equal to 30 percent of the \$5 billion in realized net farm income earned in 1988.

Similarly, farmers need improved access to new technologies as technological change continues. Shifts in extension activities, particularly with the wide range of support programs available through extension offices, has reduced the time available for technology transfer. While the private sector has expanded its efforts, the level of technology

now available requires hands-on experience. An emphasis on more on-farm demonstrations may be useful.

Safety Nets

Our financial farm support programs, which were designed to address problems of the past, need to be reassessed in light of changing circumstances. Many were aimed at promoting production, rather than encouraging a better marketing effort. Some may operate at cross purposes with much-needed conservation efforts. We need to ask whether they are still effectively assisting the Canadian industry.

The current policy framework has led to perceptions of regional and commodity inequity, and has, in some cases, distorted market signals and made individual decision-making difficult. The experience of recent years, particularly with trade wars and successive years of droughts, has shown the difficulty present programs have in responding to the range of events that can occur. Increasing use of ad hoc programs has created an uncertain environment in which it is difficult for farmers to make long-term plans. There is a need to redesign our safety nets to ensure that they can respond when needed, and allow farmers to make their own management decisions, without impeding our ability to access world markets.

Regional Needs

The development of the various regions of Canada will continue to be as important as in the past. Yet in the face of changing circumstances, some policies may be impeding the very regional development they were designed to promote. And some are affecting the competitiveness of farmers in other regions. We need, for example, to review our transportation policies, which have historically been used to promote regional growth, to ensure that they are still providing the best possible means to do so.

The Environment

The agri-food industry, by its very nature, involves the environment. Agriculture is concerned with producing food and the challenge is to produce high quality food to meet the needs of an expanding global population. To be sustainable over the long term, agriculture must conserve its resources.

In the past, the focus of conservation efforts was to maintain our soils in a highly productive state, while minimizing erosion, whether by wind or water. More recently, we have recognized the need, not only to conserve and use water effectively, but to avoid the contamination of our rivers, streams and lakes and of our groundwater resources. We have also become increasingly concerned over the effect of expanding urbanization on the availability of quality farmland. Most recently, as a result of the application of new technology to agricultural production, particularly chemical technology, a public concern about food safety and wholesomeness has emerged.

This legitimate concern about food safety has been anticipated, and a number of food inspection and residue monitoring programs have long been in place to ensure the safe use of chemicals. Governments and the industry must continue to place food safety first. There can be no trade-off between the assured safety of our food supply and the economic benefits of modern technology.

We must recognize that modern technology, safely used, is the keystone of modern agriculture. Our policies should not be to ban or prohibit this technology, but to ensure its safe use. We should recognize that agriculture is not sustainable without the use of much that is referred to as modern technology, and accept the challenge of finding the safest ways of using it.

At the same time, we must ensure that an adequate proportion of research dollars and effort is directed at environmental concerns. Only through research, technology transfer and feedback from users can we hope to identify production practices that may prove more environmentally safe.



Choosing a New Vision

chapter four



Choosing a New Vision

At this point in time, there are many important factors pointing towards the need for change. Change will bring with it many new opportunities, as it has in the past, but only if we are in a position to respond.

There are compelling reasons to develop a new vision which will guide our work in assessing our current policies and programs. The issues facing the industry are increasingly complex, and often linked to each other. This suggests a need for a broad, comprehensive approach to policy reform and a clear set of overall goals.

The vision which the federal government has for the future of agriculture, and which provincial governments share, rests on four pillars — More Market Responsiveness, Greater Self-Reliance in the Agri-food Sector, A National Policy Which Recognizes Regional Diversity, and Increased Environmental Sustainability. These pillars offer common ground as we move towards improvements in policies and programs. They are the foundation on which we can build greater confidence in the sector, enabling the sector to grow. They will allow everyone involved in the agri-food sector to continue to take pride in that involvement.

The Pillars of Reform

1. More Market Responsiveness

Market responsiveness means concentrating on producing what the market needs, rather than simply selling what we produce. It means removing barriers to markets and the development of new products for these markets. It means farmers, processors, exporters, educators and researchers working closely with governments to ensure that no opportunity is lost or ignored.

More market responsiveness means moving quickly in adapting our production and marketing systems to respond to new market opportunities. It means being a reliable and innovative supplier to the food markets of Canada and the world. Unless we are aggressive in domestic and export markets, we will find ourselves falling behind in the emerging

global economy, dependent more and more on our traditional commodity exports, rather than taking advantage of exciting new markets. It means ensuring a more secure future by diversifying our agriculture and food industry. Responding to market signals also requires that we respond when products we have been producing are no longer desired.

We have a good record, and it is on this record that we must build. We are facing a rapidly changing environment in the 1990s. The Canadian industry must be up to the challenge being posed by increasingly competitive, sophisticated global markets. While we are already a major agri-food exporter, we still continue to export mostly raw products, reducing the potential for job creation at home. Emerging opportunities in the more highly processed areas can be filled by Canadians.

We must ensure that we have in place the right environment in which Canadians can confidently search out and develop new markets. In some cases that can mean more government assistance in the marketing area. On the other hand, we must remove certain barriers, such as the wide range of inter-provincial trade barriers, which are preventing Canadians from being as competitive as they can be.

We must find ways to lower costs, both on the farm and in the processing sector. Equally important, we need to ensure that current government programs are not masking market signals, and therefore discouraging Canadians from seeking out and developing the very markets on which they will depend for growth in the future.

2. Greater Self-Reliance in the Agri-food Sector

Greater self-reliance means that given the right tools, including knowledge, technology, and competitively priced inputs, farmers are free to manage their own operations in response to market signals. It does not mean eliminating government support. Certainly, the federal government has demonstrated, by unprecedented support in recent years, a clear commitment to assist the industry in the face of certain policies of other countries and sudden changes in market demands and the weather. But it does mean that the nature of public support may need to be changed to ensure that government support does not mask market signals. Large federal government support in recent years has not solved all the problems facing the industry, and may have distorted market signals.

Nor does greater self-reliance mean that the individual must operate alone, without the benefits gained through collective activities. Canadian farmers have fought for a century to gain the legitimacy and efficiency of cooperative action through producer organizations, cooperatives, the pooling of products and prices and marketing boards. Any shift in direction must recognize this.

It means tailoring support to assure a stable, equitable and predictable environment for production and marketing. In some cases, this may mean improved safety nets; in others it may mean improved marketing arrangements or the availability of better risk management skills and information. It also means that government programs and regulations should interfere as little as possible with the supply of farm inputs and on-farm decision making.

Self-reliance is also important in the entire agri-food industry. A healthy, stable agriculture relies on vibrant, self-sustaining input supply and food processing industries able to compete and have access to the elements which can help to ensure competition on the world market. This includes the supply of reasonably priced quality raw materials, as well as highly trained people knowledgeable in technology and marketing.

Farmers expect to depend on the market-place to earn their long-run return. Effective support programs can cushion farmers against sudden changes in the markets or the weather. But continuing subsidies, with little expectation of improved market prospects, should signal the need to work out a plan for a transition to a more self-reliant basis of operation.

3. A National Policy Which Recognizes Regional Diversity

Events of recent years have heightened the awareness of a need for a more national agriculture policy which fosters greater equity between all commodities and regions. The diversity of Canadian agriculture, its history, and its constitution pose a challenge. There is a need to ensure that the economic development needs of the various regions build on their relative advantages without hurting other regions. We must find ways to develop national policies which are flexible in the face of regional realities but encourage a more level playing field. In designing our policies for the future, we need to be sure that every region can benefit from the proven potential for agriculture to contribute to overall economic growth and prosperity.

Choosing a New Vision

This means an agri-food industry which is national but which builds on regional strengths and advantages. Each region should be encouraged to produce what it can produce and market most efficiently. In some cases, this means increasing the flexibility within commodity and marketing systems to allow regional strengths to be more fully developed. To ensure enhanced prosperity, disincentives to diversification within a region must be removed. The result can be an agri-food industry which, at the production, processing and input supply levels, continues to provide stability and add vitality to rural communities.

Where program adjustments are called for, they must be negotiated in consideration of regional realities. This was done with the National Tripartite Stabilization Program, which ensures a more level playing field while allowing for some regional differences for provinces with relatively low production. Similarly, the National Soil Conservation Program is being implemented differently in each province, in recognition of unique regional needs.

The federal government fully recognizes that regionally specific programs are necessary from time to time if the agri-food sector is to successfully accommodate change. Assistance to enhance agri-food development in certain regions can help some farmers to become more viable. Such programs may be needed over long periods of time, but the nature of the regions and their markets change, requiring that these programs also be reviewed periodically. Transition assistance may also be required to enable those farmers leaving agriculture to move into more economically rewarding non-farm activities with dignity.

4. Increased Environmental Sustainability

Protection of the environment and conservation of our natural resources are critical to the long-term health and quality of life of Canadians, as well as to the market appeal of many of the sector's products. The safety and quality of our food supply, whether it comes from Canada or abroad, is also critical.

Environmental sustainability means ensuring that farmers respect the need to preserve the carrying capacity of the natural resource base and that government policies and programs do not contribute to the degradation of our environment. In some cases, this may mean reducing or eliminating production, marketing, or regulatory barriers which inhibit progress toward an economically viable, and more environmentally sound agriculture. It means all partners in the agri-food system working together to ensure the highest standards of food safety and quality.

We must continue to develop and adopt technology and practices which encourage soil and water conservation and the regeneration and preservation of wildlife habitats. Agricultural production and waste management practices need to be improved to prevent water contamination. Environmental assessments must be given more weight and become as important as economic and social assessments have been to existing policies and programs. And we must preserve the genetic diversity of our crops and livestock in Canada.

A more sustainable agriculture is achievable, but cooperation among all segments of society is critical. We need to work towards the establishment of common goals and their realization.

Directions For Change

chapter five



Directions For Change

It is evident that the Canadian agri-food industry can be innovative and profitable. But we must not let the unique opportunity which faces us slip away. We must ensure that Canada can benefit from our new trading arrangement with the United States and from new opportunities which should emerge from the MTN. We must have adequate, predictable economic support for our farmers, which allows them to make decisions based on the market, rather than on government incentive. We need to enhance our marketing strategies. We must build on the strengths of the agri-food industry in every region. And we must also ensure that we have acceptable plans to conserve our agricultural resources and protect our food supply.

Significant work has been done by Agriculture Canada, in consultation with the provinces and with many individuals, to assess the effectiveness of our current mix of programs, policies and institutions. In many cases the programs, policies and institutions currently serving agriculture appear well-suited for the future.

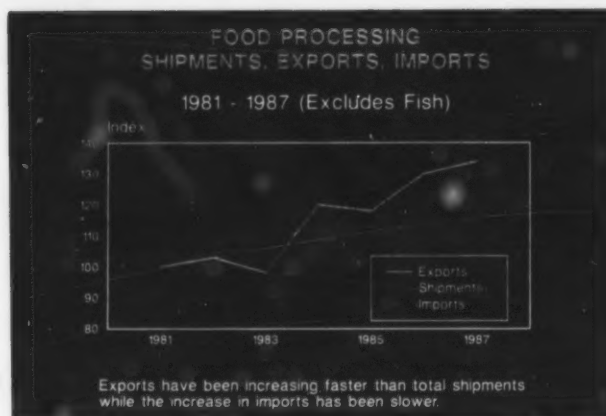
Others, however, may be in need of some redirection. A number have been on the agenda of federal and provincial ministers for some time, and have been questioned by farmers. Some were identified in the National Agriculture Strategy as requiring concerted federal, provincial and industry cooperation. It is time to move aggressively and confidently in these areas, and to identify concrete directions on which to build a policy framework which can help the industry reach its full potential in the decades ahead.

Marketing, Trade Development, and Value-Added

Introduction

We can be proud of Canada's record in agri-food market development. Significant progress has been made both in domestic and in world markets. Our vast size and diverse regions have enabled us to impress the world with the variety and quality of agri-food products from one source.

Our value-added agri-food exports have tripled in the past decade. Major inroads have been made into the Japanese market, and Canada's processed food exports are second to none in the U.S., the world's largest market. Most in the industry believe that Canada has an excellent marketing support system and a large number of experienced and highly professional people in Canada and abroad, dedicated to aiding private sector exporters. Many successful exporters and export success stories demonstrate these facts.



An increasingly competitive world trade environment will require that Canadians become even more responsive to changing markets both in Canada and abroad, and that they find means of ensuring that they can fill these markets with competitively priced, high quality products. While our raw products will continue to be in demand if the price is right, it will be especially important that Canadians respond to the growing market for value-added products. We will have to spend more effort on assisting business people to seize the initiative and capitalize on the opportunities. Simply selling what we produce, and relying on traditional markets, will not be good enough.

Canadians throughout the system do not appear to lack the confidence it will take to improve the industry's performance. The system has many strengths on which we can build.

Issues

The 1986 federal-provincial National Agriculture Strategy recognized that the industry needs to be increasingly market-oriented. Some government programs may be preventing us from achieving that goal. Developed over many years and for good reasons at the time, they may not all be suitable for the future. Many promote expanded production, without encouraging more aggressive marketing. Others may be keeping processors' costs at artificially high levels.

We must also look carefully at our regulatory programs to avoid contradiction and to ensure that impediments to growth are minimized. Inter-provincial trade barriers are of particular concern. Some examples of these are the different provincial residue tolerances for sulfa in honey, differences in provincial commercial licence requirements for trucking agricultural products and special requirements by some provinces for shipping commodities such as blueberries. Within an era of increasingly liberalized international trade, foreign suppliers may enjoy greater freedom of access to Canadian markets than Canadian firms, due to the existence of inter-provincial trade barriers. Canadian enterprises need to be assured that they will have at least equal access to domestic raw materials and markets as their foreign competitors.

As Canada increases its exposure to international trade, more consideration must be given to the appropriate levels of performance for Canada in the area of highly value-added food products. The approximately 40 percent of Canada's agri-food exports which are processed has been perhaps inappropriately compared to Denmark's 85 percent level of processed exports, with little consideration for the two countries' differing land bases, agricultural dependency or historic trading orientations. On the other hand, there appears to be substantial potential for further diversification when we recognize that only 2 percent of our total agri-food exports consist of highly processed products.

Technology development will continue to be critical to our agri-food sector. Canada's government contribution to research and development compares favorably with state contributions of other developed countries, although private sector research and development tends to lag behind that of our competitors. Gains in value-added pursuits and lower cost farm production are dependent on the creation of an investment climate where industry is comfortable contributing to research and development, and acquiring advanced technologies from elsewhere.

The federal government is committed to investing in agri-food research, and will

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continue to play a lead role in this critical area. Provinces and the private sector also need to be more involved in ensuring that collectively our research efforts are making the maximum possible contribution to the market responsiveness of the sector. An effective partnership is the only way to ensure that we are maximizing our research efforts, and helping the industry to expand and diversify in the face of changing markets. At the same time, a better coordinated national research effort needs to recognize that different institutions have different strengths. For example, industry is more likely to want to be involved in the commercialization or adaptation of applied research knowledge to an industrial setting, rather than to long-term research in which government could continue to be the major player.

We need to increase the number of joint government-industry ventures contributing to the productivity, efficiency, innovation and competitiveness of the food industry. For example, the St-Hyacinthe Food Research Centre, through joint ventures, is working with the Canadian food processing industry to develop leading-edge food processing technologies. Currently, a new process to produce soft cheeses is entering the commercial stage of research. A new packaging technique for strawberries should extend their shelf life and open up new export markets.

In Nova Scotia, a new pear/apple juice product is expected to be marketed this season as a result of collaborative research involving a private firm and the Kentville Research Station. This project should result in a new market for products which were in surplus supply.

Overall, Canada's research effort is shifting towards a greater emphasis on enabling the diversification of the agri-food sector by further developing specialty crops, and helping to find new uses, including non-food uses, for existing crops. Because of the growing market for processed foods, our research efforts are also becoming better geared towards ensuring that Canadian processors as well as farmers can meet changing market demand, both in Canada and abroad. We are

helping to develop new products and packaging methods that can enhance the marketability of Canadian agri-food products.

Many organizations gather information on export markets. Governments have traditionally been a major source of market information, both in its collection and dissemination. Yet collecting market intelligence for use by government and industry often appears wasteful because it is unclear how or whether it is used. Sometimes governments spend considerable resources obtaining information which appears only marginally useful. There are strong indications that the tremendous amount of market information which is currently available needs to be further analyzed and made more relevant to its users. This can be a key role for governments as industry is often unable to undertake the analysis necessary to effectively use market data.

At the same time, we need to assess the variety of incentives that are currently available to assist both farmers and agri-business in market development. At the farm level, some producer groups have identified a need for different types of marketing arrangements which would enhance their ability to act in the market-place. We have a large number of marketing arrangements in Canada that differ from crop to crop, and, in some cases, from region to region.

Given the split jurisdiction for marketing, government involvement occurs either through federal or provincial legislation, as well as through joint federal-provincial arrangements. The marketing environment for agricultural products is national, continental and global. We need to examine whether these arrangements can be consolidated, streamlined, and made more responsive to the markets of tomorrow.

Given the current uneven availability of suitable marketing programs, we need to look at developing a more balanced and comprehensive framework for marketing primary commodities. The objective should be to assist producers to organize in such a way that they can solve marketing problems themselves, learn to be more market-responsive, and more self-reliant.

As an example, the horticultural sector might benefit from some innovative marketing mechanisms. Made up of numerous sub-sectors, this industry has a wide range of needs and has been exploring the possibility of using supply management as a tool to better market certain commodities. A wider range of options, developed in concert with the industry, might enhance the strength of horticulture producers in the market-place.

In addition, more coordination between federal and provincial governments is critical to more value-added exports, better tailoring of processed products to the market and more vigorous promotion abroad. Many private exporters are confused about which government agency does what, and fear they may be missing something their competitors are getting. Better coordinated programs may be required to permit governments to work more closely with farmers and processors to strengthen their unity of purpose in the face of increasingly competitive international markets.

Dealing with all of these issues will require a stronger partnership between governments and the industry. There is currently a wide range of federal and provincial market development initiatives serving the industry. Integrating them would be an important step. At the same time, more joint efforts between governments and industry in the development of market development strategies will also be necessary. Understanding what are the best respective roles for the various partners will ensure that we are doing the best possible job we can in expanding our potential.

The backbone of market development, however, will always be the industry itself. It is the individual producer, processor, or exporter who makes decisions and takes the risks. While we are major traders, and some commodity organizations and agri-food firms have had major marketing success stories, Canadians do not always enjoy a reputation as aggressive marketers. Our future success must be predicated on changing the attitudes of everyone in the sector, both in government and in private business.

Principles for Action

Overall, the entire market development initiatives by all parts of Canadian agriculture need to be better focused and coordinated to be effective. We must build a market development strategy which can effectively combine the many human resources now working on market development in the sector, and to build on the strengths Canada has and can expect to see emerge in coming years. This will require greater effort at all levels. Some principles need to be established to help us to sort out our various roles, and to become more market-responsive.

Canada's agri-food market development efforts should extend beyond the farm gate and focus more on markets and products that demonstrate a development potential. Our efforts should ensure a balance between policies and programs targeted on production development and on market development.

The federal and provincial governments offer a variety of programs which focus on increasing production and enhancing the viability of the farm unit, with little emphasis on responding to evolving market signals. Some of these programs have encouraged farmers to continue to produce what they have produced well in the past, rather than to adapt in the face of changing market demand.

Those farmers who have adapted in response to market potential, such as Prairie and Ontario pulse growers, and British Columbia and Atlantic small fruit growers, have

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reaped great benefits. We need to ensure that government programs do not pose barriers to further diversification, and that farmers have access to the information they need to develop new market-oriented products.

Improved technologies must continue to be developed and applied to ensure that greater efficiencies are found through higher yields and lower costs of production. At the same time, a greater emphasis in all government and private sector initiatives needs to be placed on market development if we are to maximize the returns from our efforts.

If we are to reach our full potential, we need not only expand existing markets for our traditional exports, we need also to establish a more value-added orientation to reduce our vulnerability to volatile global markets for primary commodities and allow us to exploit opportunities for import replacement. We also need to ensure that Canadian farmers are providing processors with the right inputs which will allow them to innovate and compete domestically and globally.

We need to ensure that the requirements of processors, exporters and domestic and foreign markets are taken into account when packaging, labelling, grade standards and other regulations are set. Changing consumer demands for lifestyle products, such as "lite" foods require that regulations evolve at the same time. Regulations may not always be appropriate. For example, there is currently much discussion over whether "organic" foods can be regulated. Adapting Canadian products to foreign standards, rather than just hoping that foreign buyers will continue to buy what we have traditionally produced, will be critical.

Greater emphasis should be placed on analyzing and disseminating information on markets and new products.

To ensure that Canadian farmers and corporations can respond quickly to new market opportunities, we will have to do a better job in the future in determining the requirements and preferences of the market, and ensuring that industry is aware of those needs. Currently, market intelligence is available through a variety of forms, but not always in the most useful, accessible form.

Developing a better private and public sector market analysis and intelligence capability that can help the industry to expand into new markets will be of great benefit. In some cases, this may mean establishing greater market intelligence capability in the industry. In others, it could mean a better coordination between government departments, both federal and provincial, that are conducting market research. In still others, it could mean developing better market analysis and intelligence capabilities in posts abroad.

We should encourage industry to adopt new technologies at a quicker pace and conduct more of its own research and development.

Industrial competitiveness is largely a result of innovation which is driven by ongoing research and development activities. Considerable emphasis has been placed on creating a supportive environment for Canadian research and development, diversifying our production base and improving our export market orientation. Technology can take us beyond the food sector into the non-food uses of agricultural products and the development of export markets for food production and processing technology.

The pace of technology development world-wide has virtually exploded in the last few decades. This new era of technological

development has both caused and resulted in consumers becoming more affluent, knowledgeable and sophisticated. Products and technologies become obsolete rapidly in this type of environment, and industries must be aware and have access to leading-edge technology in order to remain competitive.

Foreign technology must be accessed, assessed and transferred with the best elements being adapted to the Canadian environment. Opportunities to use Canadian-developed products and technology to increase market potential in an increasingly competitive world must be found. Governments can play a role in this process. Yet it will also be critical that the right environment exists to encourage a greater participation on the part of the private sector in research and development. One important milestone will be the implementation of the Plant Breeders' Rights legislation which will give patent protection to research innovations.

The Canadian agri-food industry should be provided with the tools to become more self-reliant in market development.

The Canadian agri-food industry holds the primary responsibility for marketing its products, while governments provide direct and indirect support. Industry has, for some time, realized the need for improved organization and attention to marketing. The horticulture sector is an example. Initiatives such as the Ontario Horticulture Marketing Services proposal are designed to assist the industry to become more self-reliant in marketing in the long-term.

Governments can support industry self-reliance in a number of ways. They can help to promote the creation of mechanisms to improve the export readiness of firms and to enable commodity or product sectors to raise funds for market development through check-

offs and other means. They can also adjust policies which distort market signals, input costs, and market prices for Canada's agri-food products.

In addition, the federal government will continue to negotiate improved and assured export market access by removing tariff, non-tariff and technical barriers to Canadian products and to strengthen GATT rules for trade in agricultural and food products.

We should eliminate, where possible, and generally minimize inter-provincial barriers to trade in order to encourage the freest possible movement of goods across the country and to facilitate the development of enterprises' capacity to tackle global markets.

There is a significant number of government programs which represent barriers to trade within Canada. A recent report by the Federal-Provincial Market Development Council identified 169 such inter-provincial barriers. Some production, transportation and processing subsidies prevent a competitive flow of agri-food products between regions. Technical marketing and quality regulations prevent consumers from accessing the products they want and are available in other parts of the country. They can also result in significantly higher prices of production and marketing for food processors due to reduced economies of size and availability of raw materials.

Much work has been done in this area by federal and provincial governments. Yet significantly more work is required to identify and address these barriers. The challenge will

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be to resolve some of them in the face of frequently conflicting interests across the country.

Financing and Managing the Family Farm Business

Introduction

There has been serious concern about the current financial state of the family farm. With all of the shocks of the 1980s, high interest rates, droughts, floods and trade wars, the farm community feared that it was in significant difficulty overall, and that young farmers would not be attracted to agriculture. While severely testing the industry, these difficulties do not appear to have inflicted any permanent damage, in part because of the intervention of government.

The relatively good shape in which the industry finds itself today is a tribute to the remarkable achievement and entrepreneurial ability of Canadian farm men and women. It is an excellent foundation on which to build an even healthier industry in the future.

The 1980s have brought many problems for farmers. It is important that we learn from these years, and that we move beyond the problems of the past, and prepare for the future. The boom-bust cycle of the late 1970s to early 1980s saw many Canadian farmers with high debt levels due, in part, to the inflated price which they had paid for land in the late stages of the boom years. When prices declined, land values also fell, resulting in low equity values relative to previous years. This could happen again in the future. Other kinds of problems could also face the industry. We need to look at how to better prepare ourselves to be able to respond to these problems in the years ahead.

Farmers will need to be able to arrange their businesses in a way that enables them to respond to changing circumstances. This might mean diversifying the farm operation, possibly by expanding outside the farm gate. It might mean arranging more flexible financing so that one or two difficult years will not mean the failure of the business. It might

mean entering into a financing arrangement which shares the risk with outside investors.

The key is managing risk. Farmers must take the primary responsibility for this first line of defence against uncertainty. But governments can also help. Their key role is to help to create an environment in which farmers can manage risk and make sound financial and production management decisions. Where necessary, governments can also direct programs, in farm financing and related areas, at helping farmers manage uncertainty without distorting market signals.

Given the complexities encountered in assessing the health of the industry, there are significantly different views among farm groups and others with a stake in the industry, about the most effective means of ensuring the continuing strength of the family farm business in the future. We all have a responsibility to understand the issues and to ensure that together we are truly helping farmers to be successful in the 1990s and beyond.

Issues

Farm Management

For any business, the bottom line is the difference between success and failure. The ability of farmers to improve their net income, either through lower costs or higher revenue is key to their becoming more cost-competitive.

At both the national and international levels, farm production has to be as cost-competitive as possible to ensure that we do not lose out on opportunities. Access to better information and technology, and improved production and better financial management skills, are all critical to keeping costs low and, as a result, to higher profits and a higher standard of living.

Analysis of cost-of-production data shows that for almost all commodities, Canadian producers can be at least as efficient as their major competitors. Yet for all types of farms there is a wide range of operating margins even among farms of roughly the same size. This range is so large that it can

make the difference between a very comfortable income and one near the poverty line.

This appears to be true for all sizes and types of farms, although the range seems to narrow for larger farms. Differences in production and financial management skills appear to be major factors. There are also other causes, including the quality of the available natural resources, prices of key inputs and inappropriate or inadequate technology.

While it has long been recognized that costs vary among farms, the extent of that variation, the causes behind it and its importance to the financial success of farm businesses are just beginning to be fully realized. The 1988 Farm Credit Corporation Farm Survey shows that before accounting for interest payments or depreciation, the operating costs for farmers with incomes below \$10,000 tends to range from \$0.85 to \$0.97 per dollar of revenue. This compares with an industry average of about \$0.70 of

operating costs being spent for every dollar of gross receipts.

Farmers with higher incomes tend to keep their operating costs lower and their output higher than those with low incomes. They are doing a better job managing the production and financial sides of their farm businesses. The skills that have permitted the greater efficiency which these farmers have achieved should be transferable to other farmers.

In the example shown, the higher margin farms within a group of medium-sized Saskatchewan farms averaged \$30 per cropped acre more in accrued income in 1987 than the lower margin farms. For 800 cropped acres, this meant a difference of \$24,000 in net income — the difference between failure and a good income. The difference between the accrued income for high and low margin large grain farms is, in this instance, even larger at \$36 per cropped acre. Research suggests that

SASKATCHEWAN GRAIN FARMS, 1987

OPERATING PERFORMANCE IN DOLLARS PER CROPPED ACRE
COMPARISON OF LOW AND HIGH MARGIN FARMS

Farm Size	Interest	Fertilizer & Chemicals	Total Operating Expenses	Accrued Revenues	Accrued Operating Income
Medium					
Low Margin	15.10	19.20	81.80	96.60	14.80
High Margin	11.20	12.80	65.20	109.80	44.60
Large					
Low Margin	14.60	21.10	95.10	112.50	17.40
High Margin	14.60	16.20	79.90	133.40	53.50

(1) Margins are the difference between accrued revenues and operating expenses.

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such differences occur consistently over a period of years; they are not one-year or two-year occurrences. Good management has also been shown to result from careful attention to a wide range of factors, not just from dramatic improvement in one.

Production management skills and access to technological advances are only part of the picture. Marketing skills are important, as can be levels of education. Different levels of financial and human resource management skills also determine the success of a farm business.

The only financial statements some farmers see are the cash-basis statements prepared for them for tax purposes by book-keeping or accounting firms. There is a consensus among agricultural lenders and farm management specialists that cash-basis accounting has often led farmers into unprofitable business decisions that could have been avoided if the information provided by accounts prepared on an accrual basis had been available. The experience of the Farm Debt Review Boards is that many of the farmers coming to them had so little knowledge of the financial side of their businesses that they did not know they were in any difficulty until their loans were called.

However, good accounting in itself is not sufficient. Unless a farmer is fully able to understand the accounts and has sufficient interest to be fully aware of the financial position of the business, the best set of books in the world will not lead to better management decisions.

Management will be particularly critical for beginning farmers. Most provinces do have programs designed to improve young farmers' management skills or to provide financial subsidies to assist them in starting or expanding their farms. However, with increasingly competitive markets, it is important to understand fully the current farm management abilities and financing needs of young farmers and to identify how they can be more successful in the 1990s and beyond. The same may also be true for existing farmers attempting to convert an uneconomic unit to one with a higher level of viability.

Strengthening financial and production management skills, and improving farmers' access to new technology appear to be the best ways to help farmers improve their bottom lines. Yet improving management skills is not easy. Such improvement is only achieved over time and at the expense of considerable effort on behalf of the farm family. For many in difficulty, the time is not available, yet the need is critical.

Improving management skills also requires more research into effective farm management training and advisory initiatives. A significant effort is required to identify clearly the differences in management practices which result in such large variations in economic performance and to identify those training and advisory methods that are most effective.

Much has been done, especially by the provinces, to help farmers improve their incomes by enhancing their overall management skills. But there is clearly a significant part of the industry that is not achieving the economic results which appear possible, given the performance of our most successful producers.

Farm Finance

Financial arrangements are among the most critical factors for a farmer since they have such an impact on the long-run success of the farm business. This has been reinforced by the events of the 1980s and the difficulties that some farmers have encountered due to inappropriate financing. In part for these reasons, farm groups, the Senate and House of Commons Committees on Agriculture and others have devoted considerable attention to the identification of appropriate and innovative financing arrangements, financial management and the financial and management needs of beginning farmers.

Both the federal and provincial governments offer a wide range of credit-related programs for farmers. The federal government does not generally provide interest subsidies, but it has provided similar support through the arrangements reached by the Farm Credit

Corporation (FCC) with farmers in financial difficulty.

A number of provinces provide direct or indirect credit subsidies. Yet the evidence indicates that making subsidized credit generally available to all farmers is not an effective means of providing for the continued health of the industry. Subsidized credit, like other subsidies made generally available on a long-term basis, makes investment in farmland even more attractive to those considering entering the business or expanding their existing operation. The result is increased land prices as the benefits of the subsidy are capitalized into land values, leaving little benefit for the next generation of farmers. In addition, the subsidy often encourages farmers to take on too much debt.

As a result, it is important not to over-emphasize the benefits of reducing farm credit costs. In building a more competitive sector, a more balanced approach focusing on the total costs of the farm business and the effective use of all inputs is required. An approach is needed to encourage producers to be better production and financial managers, help them to manage debt and other forms of financing and reduce the risk of dramatic instability in financing costs.

There will, however, be circumstances in which farmers, through no fault of their own, are faced with a major financial problem. Rising costs of operating credit in the case of rapidly rising interest rates, can pose such a problem. The often tight availability of credit to young farmers with no track record, and the difficulty often experienced with inter-generational transfers create situations where farmers can benefit from outside assistance or advice. There is a need to look at new and innovative means to give hope to farmers who are in temporary difficulty but who have adequate management skills.

There is a wide range of options which have been suggested as potentially useful tools in helping farmers, particularly beginning farmers, to finance and manage their farms. It is important that we look at some of these innovative measures, some of which involve

subsidies, to determine the best means of helping farmers to manage the overall risk which they face. There may be measures that can be taken, in addition to current programs, to reduce the farmers' risk of fluctuating interest rates. There may also be strategies which farmers can follow to ensure successful inter-generational transfers, which could be worth developing.

Both private sector and government lending institutions can help to avoid future farm failures by discouraging beginning farmers from taking over unproductive farms or operating with debt loads that are serviceable only if everything goes right. They can also look at providing more complete, comprehensive financing packages to farmers which tie assistance to the successful completion of specific management courses and the presentation of a well-developed and realistic financial plan for the proposed farm business.

Principles for Action

There has been significant debate over the years as to the best ways to assist farmers to finance and manage their operations. We need to set a clearer direction in the future, to ensure that farmers are well positioned to respond to the opportunities and challenges ahead. The following principles can guide our future efforts in this area.

Policies directed at family farm businesses should recognize that the structure of agriculture will continue to evolve as farmers adopt new technologies and that farmers will continue to face volatile markets. In this environment, producers must

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take the primary responsibility for obtaining the skills and information necessary to adapt and become more competitive.

Farmers have faced extraordinary challenges in the past several years. In part, this has been due to unusual circumstances which have made farming very difficult. But many farmers have done extremely well in spite of these circumstances.

The structure of agriculture will continue to change in the face of new technology and changing markets. It is important that we recognize these changes, and ensure that Canadian farmers are in the best possible position to take advantage of change.

While governments can make information and management training available, the individual farmer must take the responsibility for ensuring a high level of risk management ability.

Governments should help the industry, and particularly beginning farmers, to find their own success through better management. Governments should also look at how they can better help farmers to manage risk, and how to provide assistance in cases when farmers find themselves in difficult financial

circumstances beyond their control.

The advantages of increased production management skills and adopting new technologies have been clear over the history of Canadian agriculture. The possibilities for improving farm incomes and credit worthiness by increasing operating efficiency through better production management skills appear to be great if we use the performance of the most profitable farms as the standard to strive for. Farmers can become more cost-competitive by adopting the techniques used by those operating more profitable farm businesses.

To help, we need to better understand the needs of the industry, and to ensure that we are providing the best means possible to make available the knowledge and skills which are necessary to make the industry more viable.

The wide range of financial management skills shown by Canadian farmers, and the critical role of financial management, point to a need for better understanding on the part of farmers of the importance of improving these skills.

Governments can help by collecting and making available to farmers farm level financial information. This can help farmers to determine which management skills are most effective and can enable them to judge their own performance. This information could also be given to the private sector, and the government could help private sector institutions to develop better farm management services. In addition, governments can help to encourage farmers to take advantage of management services provided by both the private and public sectors.

Developing standard financial accounting principles for agriculture could help. Encouraging both private and public sector lenders to require complete financial records on an accrual basis while permitting farmers continued flexibility in the tax system can help farmers to be better aware of their own

financial situations. At the same time, it will be important to ensure that farmers know how to interpret these records.

Additional farm credit measures may also be needed as part of an overall package, designed to help farmers better withstand risk, and to survive temporary financial difficulty. In particular, we could look at the special needs of beginning farmers, and what strategies could help facilitate inter-generational transfers.

Policies should not discourage farmers from seeking off-farm income opportunities.

For many farmers operating productive units, farming is no longer their only or even their main source of income. In fact, labour savings have been so great that some of the part-time farms of today are much larger than the full-time farms of a few decades ago. We must also note that part-time farming is particularly well-suited to certain production conditions and certain areas. Off-farm income, though discouraged by some government programs, is often a key factor in managing the risk of the overall business. Such diversified operations provide a degree of stability not available to full-time farmers, and governments should not discourage such operations so long as the operators of these farms are commercially oriented.

The federal and provincial governments need to look at a more integrated approach to financial and management issues.

A more integrated approach to farm credit and management can bring more fairness to all regions of Canada, while at the same time recognizing unique regional needs. It is important that farmers in one province not be disadvantaged by programs made available to farmers in another province. The role of the Farm Credit Corporation and provincial lending institutions has to be considered as part of this approach. At the same time, the way that private and public sector lending institutions relate to each other needs to be assessed in this context.

The objective of all management, credit and safety-net programs should be to ensure a healthy farm environment in which farmers are equipped to make their own decisions. There are important reasons to look at all these issues as related, and to make a wide range of skills and tools available to farmers, in order to enhance their ability to manage their overall risks in the years ahead. An integrated federal-provincial approach to these issues may be a necessary step.

Safety Nets

Introduction

Farmers have the primary responsibility to plan for the variations in income they can face. Managing risk on the farm itself is the first line of defense, and should be seen as a basic part of the safety-net system. The financial environment in which farmers operate is created in part by markets, tax provisions and credit arrangements. Governments have a role to play in ensuring that this environment is right, so that farmers have the flexibility to grow, prosper and make sound management decisions.

Stabilization programs are the second line of defense. Through them, governments, together with producers, can provide security and stability from short- and some medium-term production and market risks. Even with a substantial re-design of stabilization programs, it is unlikely that such programs can cover all possible situations. As a result, a third line of defense may be needed during periods of widespread disaster or multi-year phenomena.

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The past few years have demonstrated that there are substantial gaps in our safety nets, denying the predictability that farmers need to remain efficient, competitive, and self-reliant. Trade wars, drought and floods have generated ad hoc government responses and have weakened the financial viability and responsiveness of many stabilization programs. We have also seen how difficult it is to treat farmers equitably when stabilization programs are designed along commodity and regional lines.

There is a wide range of programs available to cushion Canadian farmers against risks posed by uneven market conditions, the weather, and disease and pest outbreaks beyond the farmer's control. They have been developed over a number of years, and each was generally created as a measure for dealing with temporary set-backs and dealing only with the commodity or region in difficulty at the time. Solutions to emergencies and crises were shaped by the initial crises themselves. What was seen to be worthwhile at one time, or for one region or commodity, has often been seen as inappropriate for other times, locations or commodities.

The many federal programs which have been designed to deal with the variety of sources of instability and seasonal variation in agriculture include Crop Insurance, the Western Grain Stabilization Act (WGSA), the Agricultural Stabilization Act (ASA), and the Agricultural Products Board (APB). Supply management, administered under the Canadian Dairy Commission Act and the Farm Products Marketing Agencies Act, provides stability to producers of dairy and poultry products. The Animal Disease and Protection Act and Plant Quarantine Act cover farmers against severe disease and pest outbreaks beyond their control. There is also a wide range of provincial programs which are part of the overall safety net.

It is important that we review the issues facing our safety nets, and to determine how to develop a safety-net system that will be effective in the years ahead. In many ways, we are facing a window of opportunity for change that may not come again for many years.

Issues

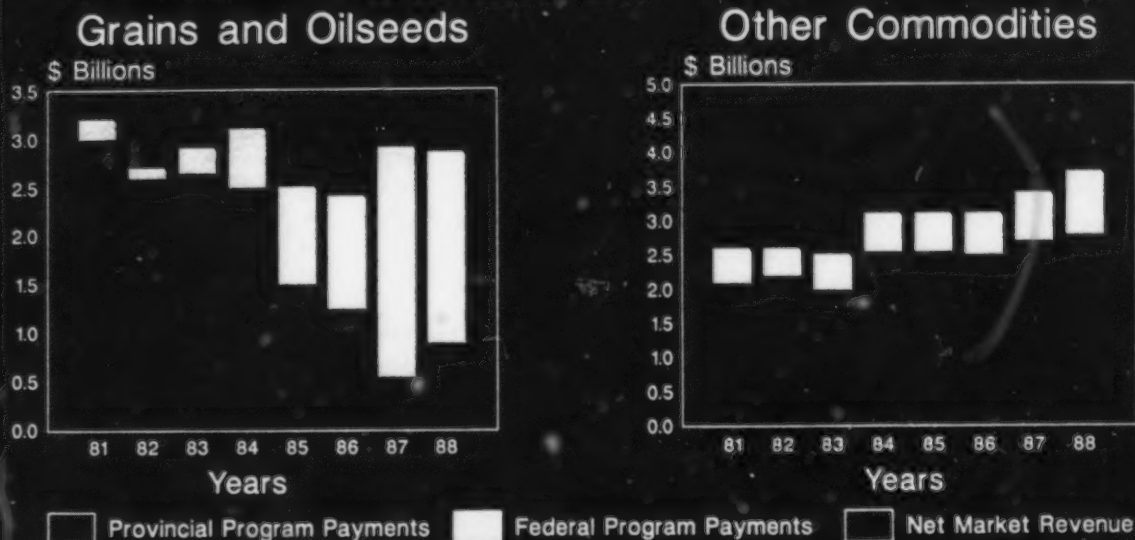
One of the key issues regarding our safety nets is the growing perception of inequity between commodities and regions. This has resulted, to a great degree, from the wide range of programs available. Support levels, program financing, eligibility and risk coverages vary from one region to another, and from commodity to commodity. There is also concern that commodities not marketed directly, for example grains fed to livestock on-farm, are treated differently than the same commodities sold to the market.

There are perceptions that WGSA and ASA treat eastern and western grain farmers differently. In the early 1980s, some western producers questioned whether they were getting value for the WGSA levies paid when support paid to eastern producers was entirely government-funded. More recently, as a result of large WGSA payments, there is a feeling in eastern Canada that the federal portion of support provided to western Canada exceeds that provided through the ASA.

For horticulture farmers, while there are a wide range of tools available, there are few clear rules for their application. Crop Insurance is the only program available on a predictable and consistent basis for most horticultural crops. While ASA programs have been offered in some years, the program does not appear to fully meet the needs of the industry. The highly perishable nature of fruits and vegetables often means that some product in this industry cannot find a market, making it difficult to use ASA. In some of these cases, the Agricultural Products Board has been used to purchase product to maintain operational markets and improve prices for producers.

Another issue facing the grain safety-net program is the continuing potential for low support levels following several years of depressed prices. While the five-year average support base is intended to track longer-term market signals, recent prices reflect a severe international grain trade war. The five-year average price formula under both WGSA and ASA may not allow for an adequate response to any further price declines in the next few years.

NET REVENUE BY SOURCE CANADA, 1981 - 1988



The federal program payments portion of producers' net revenue has increased significantly in the grains and oilseed sector in the last five years.

The federal government has responded to the needs of farmers during the extremely difficult recent years. The impact of excessive drought and world trade wars has resulted in unprecedented government payments under the Special Canadian Grains Program and the Canadian Crop Drought Assistance Program. While these programs have been successful at maintaining farm incomes at the level of the previous years, and while it is probably impossible to design a program to meet all possible situations, the large size of these ad hoc programs suggests that existing programs need to be redesigned to reduce the amount of ad hoc assistance required. Continued use of ad hoc programs tends to weaken the participation in more permanent safety nets. Their unpredictable nature also makes individual decision making difficult.

At the same time, it is clear that we need another look at our third line of defense which deals with occasional crises and multi-year disasters. This means finding better ways

to deal with these problems without distorting market signals or preventing a gradual adjustment to new market conditions.

As a first step, the federal and provincial governments have already moved to strengthen the Crop Insurance program to provide the level of protection producers have been requesting and to provide for a more equitable sharing of costs.

As well, recent changes to the National Tripartite Stabilization program for red meat producers have resulted in a stronger, fairer market risk protection program for that industry. A net benefit ceiling has been placed on all government expenditures, and adjusted for regional differences. This will help to bring a more level, equitable playing field among regions. It will also encourage governments and producers to focus on making all programs work better, rather than simply adding more programs on top — programs that are often capitalized into asset values, or are

Directions for Change

perhaps even at cross purposes with existing programs.

This points to the need to look at the inter-relationships between safety nets and other programs such as regional development, farm finance, farm management and income tax provisions to ensure that all programs combined contribute to better risk management and stability.

Yet despite the progress with tripartite stabilization, recent countervail actions against Canadian hogs and pork have pointed to the need to assess whether a more generally available program might better serve the needs of the Canadian industry. An approach which allows governments and producers to share the costs of insuring against all risks which can affect the viability of the farm unit, and is available to all regions and commodities, might allow for better planning and less challenges internationally.

Principles for Action

It is clear that we need a long-term vision for safety nets, towards which we can develop specific long-term program options. At the same time, we need this vision to address short-term problems. These need to be addressed in a way that is consistent with a longer-term view, so that we do not preclude our ability to make real progress in the long-run. In developing the vision, we need to keep in mind specific regional requirements, as well as the need to ensure that safety nets do not encourage unsound environmental practices.

To this end, it is necessary to develop principles for safety-net reform. Some principles are suggested below. They will help to guide us as we work together to strengthen each line of defense against risk.

Producers should be provided with the tools or mechanisms to plan for their own long-term

farm stability.

There is considerable interest in the farming community to allow producers to purchase extended or enhanced benefits over and above the plans offered with government cost-sharing. As well, the Grains 2000 proposal focuses on the liquidity requirements for successful farm operations. These proposals are very interesting because they are designed to strengthen the farmer's first line of defense. Farmers have responded positively to ideas about individual farm management plans.

This is an exceedingly complex issue. It raises questions about the incentives provided through existing credit and tax provisions available to all farmers. Some of these provisions can encourage farmers to expand their assets, often with debt, and lead away from the liquidity that may be necessary in successful farming. It may be easy to consider adding another program to encourage greater liquidity, off-setting the effects of some existing programs. Yet it may be more effective to consider a broad range of programs together. There is little detailed evidence to provide direction on the best way to deal with these issues and some further work needs to be done.

Stabilization programs should be designed to offer short-term support for producers as adjustments are made toward long-term market trends.

Under normal long-term market and crop-yield conditions, farmers should expect to receive their returns from the market. The severe fluctuations that are common in agriculture can result in a short-term crisis that threatens the longer-term viability and self-reliance of producers. Stabilization programs need to respond to these fluctuations to allow planned adjustment to the long-term market signals.

Current federal programs use historical averages to reflect movement toward these long-term trends. While this approach appears to work well for short-term price and yield fluctuations, it is particularly vulnerable to the multi-year price depressing effects of such events as trade wars and droughts. For this reason, a framework for disaster assistance, suggested below, may also be needed.

We must examine the feasibility of designing safety-net programs which focus on the viability of the individual farm unit.

The viability of the entire farming operation is the key to greater self-reliance of farmers. There are many important benefits to focusing on the whole farm, including neutrality in decision making among the various enterprises on the farm, resource use on farms, compatibility with the possible outcome of international trade negotiations, and a more effective use of government safety-net funding. Such an approach would lead toward including all commodities in one stabilization program and integrating crop insurance with market risk protection.

A fully integrated whole farm stabilization program may be several years away if only because of the uncertainty surrounding international subsidy negotiations in the GATT and the time required to work toward such a program. In the meantime, it may be useful to consider a pilot project for grains and oilseeds or horticulture to see if such an approach can work for a group of similar commodities. In any case, we should try to develop relatively consistent commodity-specific programs that could be linked together in the future to form an integrated, farm-based plan.

Safety-net programs should encourage a level

playing field within Canada, while recognizing regional differences. Regional differences can be taken into account through flexibility under a net benefit ceiling.

An important concern in developing an approach to safety nets is to ensure equity of support across all provinces. An overall net benefit ceiling offers an opportunity for federal and provincial governments to provide an equitable level of support to all producers, while taking into account special regional needs. The differences in support across provinces were a key issue in the red meats industry. Implementing a net benefit ceiling on support is addressing this long-standing problem.

We may be able to build on the concept inherent in the Red Meat Tripartite Agreement to try to bring more equity in other commodity areas. Gaining commitment among all governments to establish and respect ceilings could help to prevent the provinces and the federal government from escalating subsidies in one region compared to another and ensure that commodities are treated fairly.

A ceiling might also encourage governments and producers to assess what programs are really contributing to growth and to make them work better. It may prevent the tendency to simply add new programs onto existing ones. As in the red meats sector, a higher ceiling could be established for provinces with a small proportion of overall production but a significant dependence on agriculture in the provincial economy. Such a ceiling could be administered jointly by the federal and provincial governments and industry using the methodology established for red meats.

Funding of safety-net programs should be cost-shared among producers, provincial governments and the federal government.

Both orders of government, but particularly the federal government, have faced large, unanticipated expenditures on agriculture over the past few years. The federal and provincial governments are already moving towards cost sharing of safety-net programs. There is considerable variation in the funding arrangements and cost sharing in existing programs. Working towards permanent, common and understandable cost-sharing arrangements should be one of our major goals.

Objective criteria, and cost-sharing arrangements, should be established for determining the existence, extent and response of any widespread or multi-year phenomena.

From time to time, events in the agriculture sector that are not necessarily indicative of the long-term market trends have had an impact on commodity prices. A good example is the recent grain trade war.

It is very difficult to design a single program to respond to the widespread and multi-year phenomena common to agriculture. Over the past 30 years, the federal government has responded 74 times to such crises. In almost every case, the discussions about the nature and extent of the problem were lengthy, time consuming, and slowed the response of government to farmers. It may be

possible to design together with all parties the criteria for determining the extent, speed and nature of response needed. Combined with prior cost-sharing arrangements, this would assure that all governments involved could act quickly and responsively to the crisis.

Another issue is that the stabilization programs designed to deal with short-term price or yield fluctuations are often weakened financially when multi-year events occur. Part of the response may be to supplement funding in the regular stabilization programs, to help farmers replenish the stabilization funds drained by such events.

For the most part, it appears that both improved farm management and planning as well as improved stabilization and crop insurance programs should go a long way to eliminating the need for ad hoc responses. Care will need to be taken in redesigning safety nets to ensure that "special assistance" does not continue to be commonplace. At the same time, some planning for such events would be useful in assuring appropriate and timely government response when needed.

The implementation of all forms of safety nets — credit programs, tax policies, stabilization programs and disaster assistance — should be undertaken so that sound land use and animal farming practices are encouraged.

Safety nets can influence the way in which resources on farms are used. Examples include use of high-risk marginal lands because of higher subsidies, encouragement of intensive management practices involving a higher level of chemical use than might otherwise be

appropriate in a less subsidized environment, and drainage of natural waterfowl habitats. With the greater awareness and sensitivity to environmental issues, we will have to ensure that safety-net programs fulfil Canadians' expectations, and contribute to a healthier environment for future generations.

Supply Management

Introduction

The national supply-management system is a uniquely Canadian system, designed to strengthen farmer bargaining power and stabilize prices and is used by the dairy and poultry sectors. It has been highly successful at reducing producer risk, increasing stability and providing market security.

Supply-management programs are currently in place for milk, eggs, chickens, turkeys and broiler hatching eggs. Consideration has also been given to establishing national supply management programs for other commodities such as tobacco and potatoes.

Because of the split constitutional jurisdiction for marketing, its development has only been possible through federal-provincial agreements to provide for and operate national agencies.

The federal Canadian Dairy Commission (CDC), set up under the Canadian Dairy Commission Act, operates in cooperation with the provinces in managing supplies of industrial milk. It administers the national dairy policy, undertakes some marketing, and provides advice to the federal Minister on the industrial milk sector. Each province operates its own supply-management scheme for fluid milk. The CDC also administers significant direct government support payments, which are not available to other supply-managed commodities.

The Farm Products Marketing Agencies Act establishes the National Farm Products Marketing Council (NFPMC) which provides advice to the Minister on establishing and

operating national agencies for commodities other than dairy. The NFPMC has limited supervisory powers over producer-run national marketing agencies which set marketing quotas, raise levies and, in some cases, set prices.

To ensure an effective supply-managed system within the Canadian market, import controls are applied on a variety of dairy and poultry products under the Export and Import Permits Act in accordance with the exception provided for under GATT Article XI. As well, tariffs are currently in effect on imports, especially on a number of highly processed products such as chicken dinners and frozen pizzas. The CUSTA will bring about the gradual elimination of these tariffs between Canada and the U.S.

Supply-managed commodities are important in the overall farm economy, representing 21 percent of farm cash receipts. Fluid and industrial milk contribute \$3 billion to cash receipts. Poultry and eggs contribute over \$1.5 billion. Dairy and poultry farms have the highest net worth and net income of all farm types and a very low percentage of farmers in financial difficulty. Technological advances and economies of size have led to significant increases in productivity and efficiency.

The sector is concentrated in Central Canada. Seventy-eight percent of industrial milk, 64 percent of fluid milk, 64 percent of poultry and 55 percent of egg production is located in Ontario and Quebec.

In the 1986 National Agriculture Strategy, federal and provincial governments reaffirmed their commitment to national supply-management programs for certain commodities. At the same time, they expressed some concern about certain aspects of the operation of the national marketing agreements, including the capitalization of benefits into high quota and land prices, quota shares as a cause of interprovincial conflict, and the emphasis of agencies and boards on production control as opposed to market development policies.

Directions for Change

Issues

The supply-management system has been highly successful in bringing about price stability, based on production costs, as well as market security. Yet adjustments, which can be made in a way that is evolutionary, not revolutionary, are necessary to help the industry to meet the challenges of tomorrow. The key issue facing supply management is the need for it to become more market responsive.

The primary industry itself has not always been in the forefront of market development and of meeting the changing needs of consumers. The agencies have generally been more preoccupied with quota levels and allocation. In future, the industry must focus on ensuring that it can respond to the market for both quantity and quality. If consumers are looking for leaner chicken, the industry should be able to provide it. The industry should also be able to ensure that sufficient quantities of turkeys are available in all seasons and all regions.

As well, concern has been expressed about the pricing powers of supply-management agencies. The farm prices of basic supply-managed commodities are set by provincial marketing boards or federal agencies, depending on the commodity, based on cost of production surveys. These prices tend to be above the cost of the more efficient producers. They also have been higher than many international prices. Higher prices lead to lower domestic consumption and potentially to problems in protecting the overall sector against competition from unregulated products and imports.

The price of supply-managed commodities is of particular concern to the further processing industry in Canada. The market for further-processed products is growing in Canada, and there are considerable opportunities given the trends in lifestyle and demography. The more competitive Canadian further processors are, the more able they will be to respond to these opportunities and create larger markets for Canadian farmers.

A number of other factors, such as interest, labour and tax rates and packaging and transportation costs are also important to the competitiveness of these processors.

Another constraint to market responsiveness is the often strained relationship between producers and processors and the lack of openness in decision-making affecting consumers. It may be that the regulatory structure is not conducive to all parties working together.

For example, the federal cabinet itself authorizes the support prices for butter and skim milk powder every year as a basis for achieving target returns to producers and adequate processor margins. This may not be the best forum in which to make that kind of operational decision within the supply-management system.

Restrictive government regulations sometimes limit opportunities for increased marketings. For example, the introduction of lower-fat dairy products, which many Canadian consumers would prefer, is inhibited by regulations which limit the sale of non-standard products.

Another concern facing the industry is the way in which production quota is established and allocated. The management of supply begins with the establishment of the national annual quota, based on estimates of market need. The national quota is then divided between the member provincial marketing boards according to criteria outlined in the marketing plan. The provincial boards then allocate quota to producers.

This quota has not always been set in a way that ensures that market needs are met during the year, and in all parts of the country. In addition, the quota allocation system has not tended to respond to regional changes in market demand or changing production costs. This inflexibility has been a source of considerable tension in the system, and could continue to be a significant issue unless we can develop a stronger consensus on how quota should be allocated.

As well, the value of quota to producers who originally received it at a zero price has risen dramatically over the years since it was first introduced. Quota provides a valuable asset for producers. At the same time, the effect is that the cost for new entrants is considerable, resulting in higher costs of production for new farmers.

In the current MTN, Canada is working to clarify and strengthen the rules under which Canada's supply-management systems operate. The federal government is committed to retaining border protection necessary to ensure that our supply management programs can function. The need to clarify and strengthen Article XI has become even more obvious in light of the GATT panel report on ice cream and yogurt.

Principles for Action

The federal government's commitment to supply management is firm. Supply management is an integral part of our long-term agricultural policy. It is a system that is recognized and respected by our international trading partners. It was developed in the 1960s and 1970s to respond to problems of the day. Now we must look to the 1990s and beyond in a changing market-place and create together the second generation of supply management.

Some principles are needed to form the basis of a new vision for supply management. They can guide us as we work together to adapt to change, and to address some of the issues which are preventing the industry from achieving its full potential.

The supply-management system should be more market responsive and be able to meet market demands as technology and consumers' needs change.

Many rapid changes can be expected to take place in the marketing of food products in the future. All industry participants need to improve their marketing efforts if they are to meet future opportunities. Supply-management agencies are in a unique position to play a positive role in the development of future marketing changes to the advantage of their producers, Canadian consumers and the economy generally.

A greater flexibility and ability to respond to changing consumer preferences and new technology can only be of benefit to the supply-managed sectors.

The supply-managed industry should recognize that it is impossible to completely insulate it from the world market-place.

The efficiency of farmers and processors of supply-managed commodities will be critical if these industries are to share in market opportunities, particularly given the potential for increased competition from imports of further processed products.

There is always concern with any supply-management system that prices will tend to rise because of the market power enjoyed by the domestic industry. In Canada, we will have to ensure that over time we do not see a growing gap between the prices Canadian consumers pay and that which consumers pay in other countries. In looking at any price differential, we must also look at possible causes at the primary, secondary and retail levels.

It is important that we develop a better understanding of some of these issues, and find the best means possible to lower the costs of farmers, processors and possibly retailers, to ensure the continuing growth of the sector.

Directions for Change

All parts of the marketing system should work closely together — national producer agencies, processors, retailers, food services — for their benefit and that of the consumers and the economy.

All participants must recognize their shared responsibility towards ensuring growth and stability. All must recognize that they share common goals and that working together is the best way to achieve those goals. Agencies must fulfil their mandate to supply products to consumers in sufficient quantities and quality at reasonable prices, while ensuring a fair return to producers. In turn, processors must recognize their responsibility to develop new technology and marketing strategies to allow them to exploit market opportunities. Retailers and food service industries also have a role to play in transmitting the changing needs of consumers to the industry, and in selling supply-managed products at fair prices.

The supply-management institutions should ensure the transparency of their decision-making processes in order to reinforce consumer confidence.

Most decisions on pricing and on marketing quotas or levies are not open to public review and input. The enabling legislation of the NFPMC and the CDC do not

impose public disclosure and review requirements or allow for appeal.

As in all issues which ultimately affect the consumer, it would be more appropriate to open the decision-making process more widely. Misunderstandings could be avoided. More importantly, the interests of the industry could well be better served if the ultimate consumer, the Canadian public, was better aware of the basis for some of the important decisions.

National agencies should demonstrate efficient and effective operation, be self-reliant and have sound financial management.

The establishment of national agencies has involved the creation of up to 11 boards of directors and associated administrations, one in every province and one at the national level for each commodity. These directors have strong powers to raise money through compulsory levies, to spend that money, to set quotas and allocate them to farmers. They price products to processors. They hire staff. These are important responsibilities backed by law. It is important that these bodies be accountable to the public which gives them their power. They must manage their finances soundly and efficiently.

The federal-provincial agreements should incorporate ample flexibility to facilitate the application of these principles.

Federal-provincial cooperation has been critical in the development of supply-management systems in Canada. The system would not exist as it does today without formal agreements among all governments. Changes to the system, which will result in greater flexibility in the face of changing markets, also require flexibility on the part of all signatories. Changes cannot be made without their agreement.

The provinces have indicated a willingness to work with the federal government and the industry to resolve the issues facing supply management, and to create a more national system. This willingness needs to be translated into meaningful action, which can only be arrived at through a better level of cooperation among all parties.

Agriculture Transportation Issues

Introduction

In a country where a relatively small population is spread out over thousands of miles, transport policy has been a key feature of economic development.

Transport programs designed specifically for agriculture are the Western Grain Transportation Act (WGTA), Feed Freight Assistance (FFA), and Minimum Compensatory Rates (MCRs) for canola products. The programs were designed, in part, to promote agricultural development and to encourage trade. While these transport programs operate on a regional basis, they also have national and international implications.

These programs have been in place for a number of years and have largely achieved their original goals. However, the market-place is changing and a review is required to ensure that transportation programs continue to serve the best interests of the agricultural community and contribute to its long-term viability. As well, there have been some long-standing differences on the impact of these programs on agricultural diversification and valued-added production.

Changes, if warranted, also need industry input and involvement. In addition, a clear understanding of objectives can help in evaluating these programs, and in making changes for the benefit of the overall sector.

Both the federal and provincial governments have agreed that it is important that we look carefully at the economic implications of these transportation policies, to ensure that they do not present a barrier to the development of both the regional and national agri-food sector.

Issues

Western Grain Transportation Act

The WGTA, effective in 1984, increased contributions from both the federal government and grain shippers to provide the railways with adequate revenue for transporting grain, to ensure the long-term viability of the grain transportation system. The Act was also intended to put an end to the government's "ad hoc" financial assistance programs for grain transport, commenced in the 1970s, to purchase and lease covered hoppers, finance box car repairs, and subsidize branch lines.

Under the Act, the annual government commitment, currently about \$720 million, is comprised of the \$658.6 million "Crow Benefit" plus the cumulative government share of inflation.

The rate-setting formula of the WGTA currently requires grain shippers to pay about 30 per cent of the cost of moving grain. The balance is paid by the federal government directly to the railways. This has helped western grain producers to establish and maintain valuable export markets for grains and oilseeds. At the same time, another effect of this formula has been to maintain higher grain prices on the Prairies which result in higher input costs for value-added industries in western Canada.

Some parties contend that a change in the method of payment of the federal government commitment to "pay the producer" will place the domestic and export grain sectors on a more equal footing.

Directions for Change

In 1985, the Hall Commission on Method of Payment recommended that the Crow Benefit be paid annually to producers based on their net sales of grain. The Grain Transportation Agency recommended in 1986 that the Benefit be paid out to current beneficiaries. The Economic Council of Canada, the Saskatchewan Wheat Pool and a Steering Committee from Alberta and British Columbia have recently produced reports on the WGTA. All of these reports could form a good basis for further dialogue.

The Alberta and British Columbia Governments have introduced assistance to livestock producers to offset the effects of the federal subsidy to be railways. Saskatchewan and Manitoba have recently instituted similar programs to counter the effects of the Alberta program.

There is also a question of whether there is sufficient incentive to promote the most efficient and effective grain handling and transportation system possible. It is further suggested that amendments to the Western Grain Transportation Act, specifically concerning the rate-setting formula and incentive rates, would result in greater system efficiencies.

A Senior Grain Transportation Committee study indicated that no other measure has as much potential for reducing grain transportation costs as does the elimination of high-cost branch lines. Some parties contend that current regulations do not provide an environment that facilitates the attainment of these savings.

Since the WGTA took effect in 1984, Canada, as a major exporter of grains and oilseeds, has experienced the negative impact of huge, direct subsidies by our major competitors — namely the U.S. and the EC. Programs which support the Canadian industry must be viewed in the context of these high subsidy levels maintained by our main competition.

Given all of these factors, it is appropriate to review and evaluate the WGTA to ensure that it continues to contribute to the

long-term strength of the Canadian agri-food industry.

Feed Freight Assistance

Feed Freight Assistance is a federal subsidy applied to the transportation of feed grains moving to eastern Canada, northern Ontario, British Columbia and the Yukon for the purposes of livestock feeding. In 1941, to meet the allies' wartime needs for meat products, and to encourage domestic use of prairie feed grains, the federal government introduced the subsidy on prairie grains for livestock feeding in eastern Canada and in British Columbia. Although long-term contracts with Britain ended in 1953, the FFA continued as before until 1966, when the Livestock Feed Assistance Act became effective.

While the program has essentially been maintained, some significant changes have occurred. With the rapid expansion of feed grain production, notably in Ontario, feed grain became progressively ineligible for assistance. In 1976, given their high self-sufficiency levels, Ontario and western Quebec became ineligible for feed freight assistance. At the same time, a five year on-farm and infrastructure storage assistance program was established. Since 1984, grain locally produced and commercially marketed in the freight assisted area has also qualified for assistance. Imported U.S. corn remains ineligible.

The Atlantic Livestock Feed Initiative (ALFI) has also been introduced recently to encourage greater feed grain self-sufficiency in Atlantic Canada.

The issue of Feed Freight Assistance has been intensively studied and debated. Central to the issue is its impact on livestock feed grain costs and local feed grain production. In the Atlantic region, it is believed that the subsidy does not adequately meet the needs of the livestock industry. Livestock producers who feed their own grain are not covered. In addition, livestock farmers do not have access to foreign grains, which may at times be cheaper. The relative value of the subsidy has

also diminished over the years due to inflation and increasing transportation costs. There are also a number of other regulations that negatively affect the price and of grain in eastern Canada.

All of these issues suggest that FFA needs to be examined in order to determine whether it is the best way to develop agriculture in feed grain deficient regions of the country. It may need to be redesigned to better encourage local grain production, especially on the same farm, while still allowing purchases of grain from other regions.

It is also possible that there are additional ways to bring greater competitiveness and efficiency to these regions. Better access to new varieties, other competitive sources of feeds and storage improvements combined with improved safety net programs could bring about greater efficiencies in feed grain markets in FFA regions. In the case of B.C., the impact of any changes in the WGTA will have to be evaluated before deciding the future application of FFA in that province.

Minimum Compensatory Rates for Canola Products

Minimum Compensatory Rates (MCRs) are the railway freight rates that western Canadian canola processors pay for transportation of canola oil and meal east of Thunder Bay. These rates are lower than normal commercial freight rates because they only reflect the variable costs of transportation, with no contribution to the constant costs of operating the railway.

The continued existence of the MCRs has been a matter of concern for eastern processors as their western competitors pay lower rates east of Thunder Bay.

The fact that freight rates for competitive products are being set through different rate-setting processes may present a barrier to the maximum competitiveness of the overall industry.

Principles for Action

The following principles are proposed for a review of Canada's transportation

policies as they relate to the development of both the regional and national agri-food sector:

Canada's agricultural transport programs should be sensitive to the regional diversity of Canada's agri-food industry, while recognizing that there is national interest in such programs. These programs should be reviewed in terms of their implications across the country, not just in a region where the transport program operates.

Most transportation subsidies have, as an objective, the growth and expansion of a particular regional economy. However, there has also been significant national interest, if not benefit, in these programs. It is therefore not sufficient just to look at them as regional development programs which have no impact on other parts of the country. It is important that any changes to these programs continue to respond to unique regional needs, while at the same time recognizing that changes could have significant impacts elsewhere in the country.

Changes that reduce overall transport and handling costs should be encouraged.

Directions for Change

Total WGTA grain-related rail costs are currently about \$1 billion per year, with the grain shippers paying about 30 percent. While cost reduction measures have been suggested to improve system efficiency, the current regulatory environment may not facilitate these potential cost savings.

There is also a concern in the Atlantic region that the regulatory environment is not allowing producers to take advantage of least-cost transportation alternatives and grain from international market sources.

Transportation programs should not distort normal market forces affecting producers or processors.

Transportation programs affect the use of resources in different regions of the country, and may restrict further diversification which is critical to our growth. Possible changes must, however, be carefully analyzed in terms of their overall impact on the agri-food industry. Given the complex interaction of markets, government programs and regulatory measures, we must avoid simplistic solutions that may have serious, unforeseen consequences.

Transportation policies should not lead to the need for federal or provincial programs designed to offset the effects of another transport program.

All four western provinces have introduced programs designed to subsidize the use of feed grain for livestock production, offsetting the effect of the WGTA on livestock producers.

In Atlantic Canada, the ALFI, designed to encourage feed grain production was, at least in part, necessary due to the negative influence which the FFA has had on local grain production.

Transportation policy should be consistent with international trade rules and minimize the risk of trade action by other countries.

One of Canada's objectives in current trade negotiations is to reduce agricultural export subsidies world wide. Of course, Canada would be expected to accept the disciplines agreed to through the MTN. However, we will be vigilant in challenging our trading partners to reduce their trade-distorting subsidies which have depressed prices and created serious distortions in the grains and oilseeds markets.

Food Safety and Quality

Introduction

No issue is of greater importance to Canadian society than the health of its citizens. This fact presents everyone involved in food production with an extremely high level of responsibility to continue to ensure Canadians the highest possible level of food safety and quality. A high level of food safety also helps us to maintain our reputation as an important supplier of high quality, safe food to world markets.

Assuring the safety of the food supply is a responsibility shared by all participants in

the food chain, from input supplier through the producer to the consumer. The federal government remains committed to providing the necessary leadership, research and regulatory framework to ensure that Canadians are provided with the highest possible standards of food safety, whether that food comes from Canada or abroad.

Agriculture Canada will maintain a research and inspection capability to ensure that agricultural foods produced in Canada are safe and nutritious, that hazards can be detected and that genetic resistance to disease is stimulated. As it is a key role of Agriculture Canada to enhance the marketability of agri-food products, the department will continue to set and enforce industry standards to safeguard human, animal and plant health and to facilitate national and international trade.

The role of the federal government is significant, but it is not the only government involved. While the federal government has a responsibility for agri-food products which move inter-provincially and internationally, provincial governments also have responsibilities for food safety within their provinces. Cooperation and support of all government agencies involved in food safety is critical.

The role of governments is to ensure that industry is responsible and responsive to the consumer. Ultimately, industry has the primary responsibility for the health, safety and quality of food products. Industry must ensure that their production and processing techniques do not contribute to an erosion of consumer confidence in their products. At the same time, federal government acts and regulations must be open and flexible to invite rather than inhibit industry initiatives responding to consumer signals.

Consumers are the third crucial partner in food safety. The consumer is responsible for the safe handling of products after they are purchased. Consumers must have access to accurate and timely information in order to make informed choices at the retail level and subsequently to safely store, handle and prepare food products.

Issues

The 1985 Ministerial Task Force on Program Review concluded that Canada has an effective food inspection system and that Canadians are justified in having a high level of confidence in it. However, we cannot be complacent. We must build on our current system to ensure that it can continue to meet the needs of consumers at home and abroad.

Recent events have shown the need for clearer roles between all partners in the food safety system and for a more open and transparent decision-making process. Greater cooperation between the partners — industry, governments, trading partners, and particularly Canadian consumers — is critical. While a majority of North American incidents of food poisoning are linked to the restaurant or home, only 3 percent of Canadians identify the consumer as having a major responsibility for food safety.

It is important that federal and provincial food regulating agencies, work in harmony to improve the food inspection system. While primacy for the safety and nutrition of food resides with Health and Welfare Canada, there is a broad range of shared accountability requiring close cooperation.

Of particular importance is the need to do more to increase consultation and open and timely communication with consumers, to ensure that adequate information is available to allow for informed decision making, and to ensure that consumers are aware of the role they need to play.

A National Food Safety Advisory Group representing producers, processors, consumers and federal and provincial government departments has been active since 1986. This Advisory Group advises on food safety issues and is charged with recommending acceptable safety factors and types of inspection programs which would achieve acceptable levels of safety assurance.

Among the public, there is a strong belief that zero-risk is possible in the production and consumption of foods, even though no means could exist to provide such a

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guarantee. There is also a clear expectation that governments will provide the ultimate assurance regarding food safety. This has constrained the clear understanding of responsibilities of both industry and consumer, in spite of the fact that all of us have a role to play.

Accepting that the agri-food system carries some measure of risk and that the responsibility for ensuring safe and wholesome food is a shared one necessitates the forging of a new understanding and shared decision making among the three partners in food safety, governments, the agri-food industry and consumers.

In recent decades, significant developments have influenced the perceptions which consumers have about food safety and have had a major impact. A technological explosion has provided a capacity to detect bacteria contamination and chemical residues in increasingly small levels. At the same time, there has been an increasing awareness of the possible effects of man-made substances on the air we breathe and the food we eat and drink.

This awareness has resulted in a shift in emphasis among consumers from concern over visible defects and grading of food products to concern about invisible chemical residues and bacterial presence in food products. Since consumers cannot see for themselves that food is free of residues, they expect the inspection services to provide this assurance.

Sophisticated technology and scientific discovery will continue to identify, in increasingly minute amounts, chemical and bacterial food residues occurring both naturally and as additives to foods. The significance of this type of information is unknown. It is difficult to interpret and will require that government, industry and the public increasingly work together in a more concerted way to assess its importance for human health.

Pesticide use is increasingly triggering controversy. A key concern is to reduce chemical residues which are seen to not be natural and result from environmentally

incompatible systems of pest control. The Pesticide Review Board is a special initiative by Agriculture Canada which will have an impact on pesticide use and on policy initiatives in food safety and environmental sustainability. It is broadly-based, including members from environmental, farming, public health, biological and consumer interest groups as well as federal regulatory agencies and industry.

There is increasing public and media attention associated with the potential presence of other chemical residues in foods, including animal growth hormone and veterinary drugs, as well as with risks from bacteria such as salmonella and listeria. Nevertheless, polls show a recent increase in consumers' confidence in quality control relative to polls conducted in the mid-1970s.

Agriculture Canada has taken a lead role in developing and applying inspection systems and methods to detect, control and eliminate microscopic-level hazards from foods. This requires the development and application of rapid tests for drugs such as sulfamethazine, for bacteria such as salmonella, and for antibiotics. Inspection activities are shifting more towards residue testing and detection.

These rapid tests, applied at the points of production and processing, permit more effective use of the highly sophisticated and expensive confirmatory laboratory tests, and provide for a much broader coverage of the commodity under test. As rapid tests evolve, the sharing of responsibilities with industry should continue, with government providing the development and initial application of tests, and industry assuming responsibility for the actual testing. In this scenario, government would retain the responsibility for auditing.

Another issue relates to international trade. Increasingly, other countries could attempt to use consumers' concerns for food safety to develop trade barriers which, whether based on scientific fact or public perception, will have effects which are very real. It is important to appreciate the trade implications of food safety standards and the

role of public perceptions. It is the task of all of us to protect and enhance the marketability of agri-food products.

Principles for Action

Ensuring food safety is a dynamic, constantly changing challenge. Modifications and enhancements to the system have been undertaken, and will be ongoing. Some principles can direct us as we continue in the goal to provide the highest assurance of the safety of the Canadian food supply.

Canada's inspection and food safety systems should ensure that responsibility for food safety is properly shared by all participants in the food chain, from input supplier through the producer and processor to the consumer.

This can be accomplished by ensuring that governments undertake the necessary research within their own jurisdictions, and cooperatively implement a harmonized regulatory framework to ensure the highest standards of food safety. This framework must be responsive to consumer demands and must not inhibit trade. Federally, further tightening the linkages between the four departments involved in food safety will be important. Tightening the linkage with provincial bodies responsible for food safety will also strengthen the food system. The goal must be a food safety system which is standardized, consistent and provides the highest possible level of protection for the consumer.

In addition, industry must take full responsibility for completely meeting government-set health, safety and quality standards for food products.

Most food safety incidents resulting in food poisoning occur as a result of problems generated subsequent to production and processing. Consumers, as partners with industry and government, also need to be aware of their responsibilities. They need to be provided with accurate and timely information which allows them to make informed choices at the retail level, and ensures that they know how to safely store, handle and prepare food products.

The system should be more open, allowing for the direct involvement of both consumers and industry.

It is important that consumers be kept informed about industry performance in the setting and implementation of safety standards. Together, consumers, unions, industry and provincial and federal departments need to play a greater role in determining of priorities associated with food inspection in Canada. This would share with these groups methods of safety assessment currently available within Agriculture Canada. The involvement of these groups in the setting of priorities would share the decision-making process and add credibility to proposed policy changes.

In order for the public to assume its role effectively, however, information on food safety issues must be shared with consumers and consumer representatives need to be actively involved in the decision-making process of safety assessment. Consumer and industry participation on the National Food Safety Advisory Group is an important step in introducing new perspectives into food safety issues. As they become familiar with the principles of such safety analysis, consumers' confidence in the food safety system should be enhanced.

The establishment of the Advisory Group permits the involvement of consumers.

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unions, industry and provincial and federal departments in the assessment of safety factors within the different inspection programs. Priorities revealed as a result of the activities of this group will be used to guide Agriculture Canada activities.

Advisory bodies and review boards such as the Food Safety Advisory Groups, the Pesticide Review Board and the Salmonella Control Review Board bring together government, industry and consumers to jointly analyze risk assessments. In addition, prior to setting major food safety policies, discussion documents will be published to solicit opinions. Decision documents would be issued when policy is set to outline rationale.

Audit Reports on the compliance of the agri-food industry with health standards will also be made available to the public on a regular and timely basis. Reports on those having both excellent records and those under "intensive surveillance" will be published.

Agriculture Canada's food safety standards and inspection methods must meet all internationally recognized levels.

The Codex Alimentarius Commission (CAC) is a subsidiary body of the Food and Agriculture Organization of the United Nations (FAO) and the World Health Organization (WHO). Its objective is to ensure that food sold internationally meets high, uniform standards, to protect the health of consumers and to facilitate international trade in food. Today, 129 countries are members of the Commission with Canada being an active participant on a number of the committees.

To date, almost 200 international standards have been developed and adapted for individual food commodities. Maximum limits

for several thousand pesticide residues in foods have been developed. The CAC has set maximum levels on food additives as well as veterinary medication residues in food.

Agriculture Canada will continue to be an active participant in the activities of FAO/WHO bodies such as the Codex Alimentarius Commission and to review, revise and provide advice concerning Canadian positions for sessions of the CAC and individual commodity and general subject matter sessions.

Agriculture Canada will also adapt and accept international food standards and recommendations arising from FAO/WHO organizations. The adoption of international food standards established by such bodies as the Codex will help to maintain current markets and potentially will open doors to new markets.

In cooperation with the United States, Canada will also undertake a systematic approach toward realistic and attainable tolerances for all chemical residues and bacteria associated with foods. Such an approach will be made in concert with National Health and Welfare and would provide for a uniform level of safety assurance.

Agriculture Canada must continue to improve the system to assess agri-food products and processes of foreign countries and companies shipping to Canada.

Canada has had a policy of accrediting meat inspection systems and individual plants within foreign countries for a number of years. Presently 32 countries are permitted to export meat to Canada. More recently, an accreditation of foreign plants exporting processed egg products has been introduced and two plants, one in the Netherlands and one in Israel as well as several U.S. plants, have been approved to export to Canada.

The 1988 Auditor General's report recommended that Agriculture Canada should enhance its monitoring of imported fresh and processed fruit and vegetable products for health and safety factors. Such products are subject to a monitoring inspection scheme upon arrival. However, the perishable nature of fresh products necessitates inspections within short time-frames.

Agriculture Canada has recently requested that all countries exporting other food products subject to the Canada Agricultural Products Act provide detailed descriptions of the legal authorities and inspection systems and procedures in place in those countries.

Based on the responses obtained, the countries will be assessed as to the apparent risks associated with the acceptance of their exports. Canada will then undertake to do actual verifications of the reported inspection systems and procedures by means of on-site inspections in the foreign countries. This action will be undertaken on a priority basis according to the safety assessment. Continued accessibility to the Canadian market will be based on the systems and control measures found in place during the on-site inspections.

This initiative is designed to enhance existing assurances of the highest level of safety of imported products for Canadian consumers. It may also result in fairer competition between domestic and foreign food processors. Canadian processors however may face similar regulatory actions being taken by governments in other countries.

Agriculture Canada must increase laboratory testing to maintain consumer confidence that food is controlled for residues.

Agriculture Canada's food inspection system has historically been both safety and

quality (grade) oriented. Inspection of meat for cleanliness began in 1907. The testing of meat for the "unseen" factors such as chemical residues and bacteria followed later. Chemical residue testing for fruit and vegetables became a priority in the last few years.

Food safety research is required to further develop rapid diagnostic tests for the detection of bacterial and chemical residues during the production and processing of foods. Such tests must be sensitive and specific so that a rapid screening of relatively large numbers of samples can be achieved. While some rapid tests have been developed and are in use, many more bacterial and chemical tests need to be developed. Reference to similar developments in other countries will avoid duplication of effort.

Sustainable Agricultural Development

Introduction

Protecting our environment for future generations, while maintaining and increasing the strength of the Canadian economy, is a major priority of Canadians and the federal government. Provincial governments share this goal. Sustainable economic development will become increasingly important in the coming years, as Canadians become more aware of the environment.

The primary objective of sustainable agriculture is to ensure a more environmentally sensitive agriculture industry. Promoting an agriculture and food industry that is economically viable and profitable, and that provides for basic human food needs while enhancing the quality of life for farmers and society as a whole are key goals. In addition, sustainable agricultural development promotes conserving or enhancing, for the use of future generations, the quality of the environment and the resource base upon which agriculture depends.

In the future, it will no longer be sufficient simply to undertake economic assessments of agricultural policies and programs. It

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will be important to Canadians and to the future of agriculture that we also assess the impact these policies and programs can have on our valuable natural resources. More economic and environmental integration will become necessary as we move into the 1990s and beyond.

Issues

A number of environmental issues have an impact on the agri-food industry. Soil and water quality is certainly a concern as well as pesticide use, agriculture's heavy dependence on the use of non-renewable fossil fuels, the loss of genetic diversity in plants and animals, and intensive livestock production practices. The loss of high quality farm land to urbanization is also an issue of concern.

We need to understand better the environmental effects of many of our current practices and programs to ensure that they are contributing to a sound environment in which agriculture and Canadians as a whole can prosper and be healthy.

Most modern technology, if safely used, has little negative effect on the environment. Yet some conventional agricultural practices may not be as environmentally sound as required for long-term sustainability. All partners in agriculture need to ensure that they are making the maximum possible contribution to the preservation of the environment.

Much is already being done. The federal and provincial governments, for example, are jointly funding the \$150 million National Soil Conservation Program. The federal government has also taken many steps to help conserve genetic resources through modern techniques of collecting and storing plant and animal germ plasm. These efforts will help to preserve the genetic diversity of crops and livestock breeds for future generations, and more can be done in this area. In addition, livestock producers themselves have shown a willingness to address the issue of animal welfare.

There are, however, many constraints slowing our progress toward a more sustainable agriculture. There is a perception that sustainable agriculture means a return to outmoded technology. Some people also equate lower production with lower profit. Neither needs to be the case. An emphasis on expanded production can result in an increased use of marginal land which requires a high use of expensive inputs to maintain the same level of output.

There are also legislative and regulatory barriers to the development of a more sustainable agriculture. For example, the Crop Insurance program, in cases where coverage is based on area averages, may encourage cropping of marginal land. As well, the current pesticide registration process may prevent new, more environmentally friendly pesticides from being registered on a timely basis.

One of the constraints most frequently expressed is the lack of training in our educational institutions about agricultural practices that involve less dependence on purchased inputs and a greater emphasis on resource-conserving technologies. In addition, those committed to sustainable agriculture often note that there is a lack of readily available information on sustainable agriculture. Complaints have been made that research is not targeted to needs, nor are extension services adequate to handle the demands for information.

Expanded research efforts on environmental issues will be important to overcome these constraints. Equally important will be enhanced education and transfer of technology to farmers, to allow them to share in the advantages of lower costs and higher profits. Clarification of the respective roles and responsibilities of various governments and related institutions will also be required if farmers are to be effectively assisted to adopt more sustainable practices.

Overall, a better partnership is required to develop, implement and maintain commitment to sustainable agricultural development at all levels of government, academia and industry.

Principles for Action

All participants of Canada's agri-food sector should identify and implement measures to make the industry more compatible with the environment.

The development of agriculture in many parts of Canada has had some adverse effects on the environment. The agri-food sector needs to work towards greater harmony and compatibility with the environment.

All individuals in Canadian society need to take their responsibility for the environment seriously. On the farm, producers must increasingly adopt agricultural production and waste management practices which will prevent the contamination of surface and groundwater. They must also adopt practices that encourage soil conservation and regeneration. Input suppliers need to provide farmers with inputs that are safer both for the user and for the environment. Processors as well need to ensure that they maintain production practices that are environmentally sound.

Canada's agri-food policies should encourage the development and adoption of management techniques and skills that are oriented to environmental sensitivity and sustainable production systems.

Production, marketing and regulatory barriers which inhibit progress toward an economically viable, but more environmentally sustainable agriculture sector should be

identified and corrected. Some traditional farming practices may not only harm the environment, but also lower the standard of living of farmers due to high input costs. Better resource management skills, including production and financial skills, may result in higher profits, and reduced use of chemicals and other inputs which can be harmful to the environment.

All government programs and policies must take into account environmental sustainability in their design and delivery. Compliance with environmental requirements may have to be encouraged.

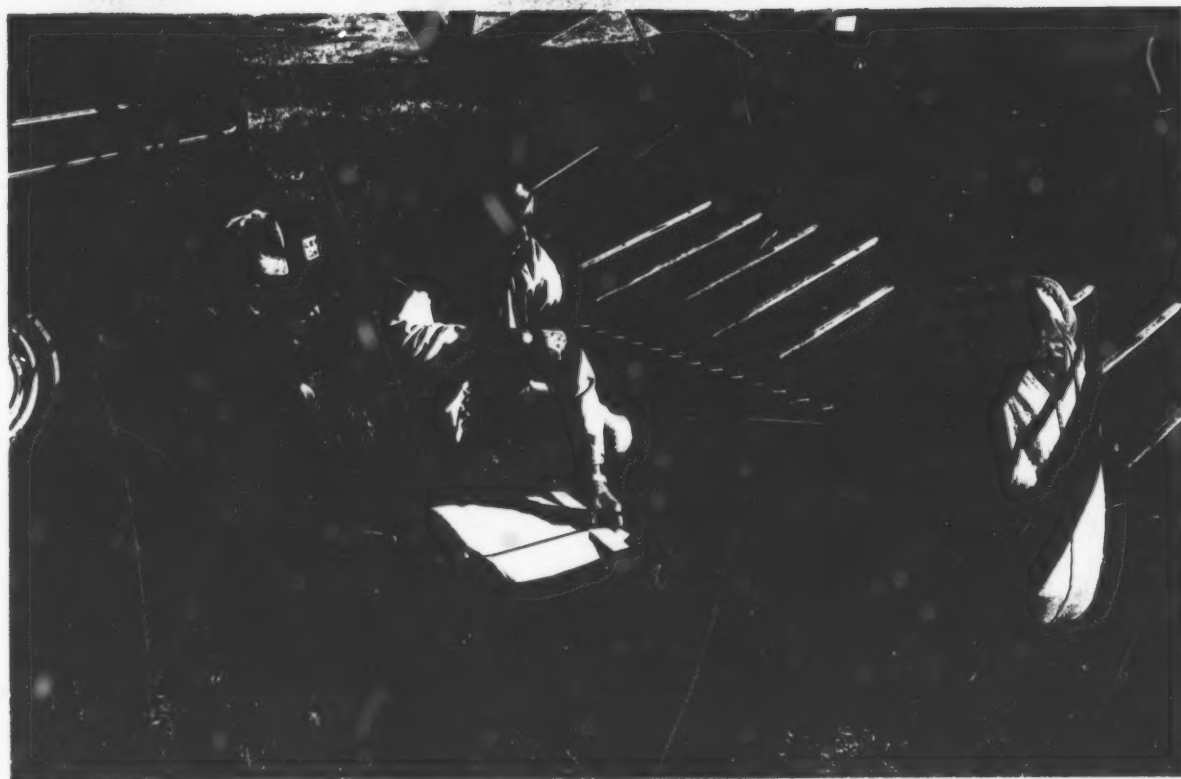
Together we need to assess thoroughly our policies and programs to ensure that they are in harmony with the goal of a more sustainable agriculture. A number of major programs, for example WGTA and WGSa in their attempts to support current farm operations, tend also to encourage monocultures, reduce diversification, and ultimately increase long-term financial risks faced by farmers. The review of these programs needs to take these issues into account. New programs must also be consistent with overall environmental sustainability.

We need to discuss together whether penalties for unsound environmental practices should be introduced. On the other hand, there may be ways to reward those who do adopt more environmentally sound agricultural practices.



Turning Principles Into Action

chapter six



Turning Principles Into Action —————

Roles and Responsibilities

To move towards a new vision for the agri-food industry and to develop specific options that meet the pillars and principles of that vision, we must forge a partnership which brings together everyone involved in the industry. We need to recognize our inter-dependent roles and interests, and ensure that our current practices do not prevent us from maximizing opportunity.

Everyone needs to look at their responsibilities to the overall health of the industry, and at their relationships with each other. Farmers, federal and provincial governments, processors, distributors, input suppliers, exporters and transporters all have a role to play. A better partnership which allows all segments of the industry to grow together is critical to the vision.

Farmers' Responsibility

The farmer has the primary responsibility to make agriculture prosper. Farmers, particularly beginning farmers, have an obligation to prepare themselves for the challenges ahead by accessing the best production and financial skills possible. Producers also have a responsibility to be aware of the government programs available and to take advantage of them as part of their overall risk management approach.

Farmers must be environmentally responsible, undertaking conservation measures on their own farms and urging others to do the same. They must respond to their own and the public's concern about pollution and food safety.

Farmers, as a whole, will benefit greatly from the new freer trade environment being negotiated by the federal government. The federal government is committed to ensuring that the outcome of the MTN is in the interests of Canadian farmers. Yet with the benefits will come responsibilities. Farmers

must be prepared to accept these responsibilities to innovate and change with the times as effectively as they have in the past.

The Responsibility of Agri-business

Given the increasing need for farmers to be competitive, businesses serving agriculture must deliver products to farmers that are effective, competitively priced and of high quality. They must also be appropriate to local conditions, safe to use, and responsive to concerns about the environment.

This is no small task. Yet farm suppliers have been doing this, by and large, throughout the history of farming in Canada. But today, farmers are competing against the world more than ever and, as a result, the inputs they use also have to be world class. Agribusiness must innovate to help Canada meet world competition. Farmers also need the technical advice and assistance to assure the efficient use of these products. Financial institutions have responsibility to ensure that farmers have fair access to credit, and sound advice on their financial affairs.

The processing sector must be aggressive in seeking out new markets, both domestically and internationally. Opportunities do exist. They can be met by Canadians if we are constantly developing new products, and if processors generally work closely with governments and farmers in building a better industry.

Retailers and the food service industry also must work with the industry to develop local sources for products being demanded, sources which may, in the long run, also be the cheapest.

All industry in Canada must contribute more to research to ensure that we can be on the leading edge of new technology. This will be critical to our success in the future.

Consumers' Responsibility

Consumers have a major role to play. They, in the end, decide what food products are required. They set the ultimate test as to whether our food quality and safety standards are acceptable. They determine what prices are acceptable.

To act responsibly, they will have to become more knowledgeable about food safety issues. The handling, storage and preparation of food is as important to its safety as each other part of its production. In addition, becoming aware of the facts surrounding food safety allows the consumer to make more informed decisions at the retail level.

The Provincial Governments' Responsibility

Provincial governments are on the front lines with farmers, consumers, interest groups, municipalities, and business. Regional interests within provinces have to be balanced. Local needs have to be accommodated.

While we all need to be involved in providing farmers with the management tools required for them to be profitable, a key constitutional responsibility of the provinces is

education. Well-trained farmers are the product of technical, vocational and academic courses offered under the leadership of provincial governments. Continuing to upgrade skills and local technical advice will be critical to the future of the industry.

Licensing pest control operators and inspecting small packers, as well as fulfilling local health responsibilities, draw provinces into the issues of food safety and pesticides. In addition, municipal issues such as urban sprawl, waste disposal and farm taxes are largely provincial issues which affect the industry.

Provinces administer a wide range of programs which are of direct support to the agri-food industry. It will be increasingly important for provincial governments to ensure that these programs promote trade, both internationally, and inter-provincially. Some provincial programs, like certain federal ones, are coming under increasing international scrutiny. Others represent barriers to interprovincial trade, reducing the overall competitiveness of the Canadian industry.

Provinces have also taken on significant responsibility over the marketing of agri-food products. All partners will have to work closely together to ensure that marketing initiatives are helping the industry in a coordinated, useful fashion.

The Federal Government's Responsibility

The key responsibility of the federal government must be to forge a new partnership with everyone involved in the agri-food industry. Federal leadership will be an important catalyst to developing good working relationships throughout the industry.

The federal government will maintain its strong role in inspection and grading of agri-food products, in agricultural research, in farm income support programs and in regional development.

Federal efforts will focus on negotiating access to foreign markets for Canadian agri-food exports. Aggressive negotiations with our

Turning Principles Into Action

trading partners will ensure that Canada continues to share in the benefits of a more orderly international market-place.

The federal government will also work with foreign governments to prevent them from using non-tariff barriers, such as health requirements and licensing, to keep Canadian products out. An overall national marketing effort, developed jointly with industry and the provinces, will allow us to take maximum advantage of new market opportunities. And the government will work with everyone involved to ensure that its various policies and programs do not present barriers to greater expansion of markets.

Agriculture is Everyone's Responsibility

The opportunities and challenges facing the agricultural and food industries will only be dealt with effectively through cooperation on the part of all the players in the system.

In Canada, we have to deal with incredible ranges of climate and soil types, a split constitutional jurisdiction, often unclear dividing lines between roles, and rapidly changing markets.

We also have a country that is situated next to the best international market in the world. We are strategically placed, facing both Europe and the Pacific Rim. We have the land, the climate, the people, the talent and the resources to produce world-class products at competitive prices. We have a Canadian public that is supportive of our industry. We must find even better ways to work cooperatively together to build on these strengths.

The Review Process

This paper is an early step in what will likely be a long, evolutionary process. Some issues may take some time for us to work through together. Others can be resolved fairly quickly. There will be many opportunities along the way to make progress together, to discuss the vision, and how to implement it.

A national conference on the agri-food industry in Ottawa this December will be the next step. It will provide an opportunity for all partners to talk together, to better understand some of the issues facing them, to further develop the principles outlined in this paper, and to launch the process of turning them into concrete actions. Throughout the coming year all partners in the agri-food industry will have to get together in one forum or another, to keep talking, and to keep moving in the right direction.

In some areas, such as supply management, task forces, which bring key players around a smaller table, have already been set in motion to work towards answers to some of the problems. In other areas, such as safety nets, federal/provincial working groups have been established to begin to develop some options which will be discussed with the industry. Work is also being done by federal and provincial officials to bring a better coordinated effort to market development initiatives.

The overall objective of these efforts is to set in place ways and means to build a more solid and dynamic agri-food industry. With the active support and participation of all the partners, this objective can and will be achieved. In this way, we will be well positioned to respond successfully to the challenges and opportunities of the future.